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VETERANS' HOUSING ISSUES/SOLVENCY OF REVOLVING FUND

HEARING

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

S. 1922, S. 2265, and Related Bills

FEBRUARY 29, 1984

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VETERANS' HOUSING ISSUES/SOLVENCY OF REVOLVING FUND

WEDNESDAY, FEBRUARY 29, 1984

U.S. Senate,
Committee on Veterans' Affairs,
Washington, DC.

The committee met, pursuant to notice, at 10:12 a.m., in room SR-418, Russell Senate Office Building, Hon. Alan K. Simpson (chairman of the committee) presiding.

Present: Chairman Alan K. Simpson, Senators Strom Thurmond and Arlen Specter.

OPENING STATEMENT OF HON. ALAN K. SIMPSON, CHAIRMAN OF THE SENATE COMMITTEE ON VETERANS' AFFAIRS

Chairman Simpson. The hearing will come to order.

So here we are with a hearing, oversight regarding the VA Loan Guaranty Program. And that program comes to recent focus of new attention, debate and discussion. And after years of rather quiet operation with little or no congressional involvement or direction it would appear that the time is present for a comprehensive review of this important program which has assisted more than 11.5 million veterans.

Since 1961, this program has operated without the requirement of appropriations. I think that led to a belief, perhaps even a misconception, that the program is self-sustaining. And that fact is since the date the Loan Guaranty Revolving Fund has remained operational only through the receipt of transfers totaling nearly $1.8 billion from the Direct Loan Revolving Fund.

There have been some recent changes in the direct loan program—you know those which include the elimination of most new direct loans and the sale of nearly the entire direct loan portfolio—combined with increased cash requirements of the Loan Guaranty Revolving Fund as a result of increased foreclosures during this just-concluded recession which have reduced the Direct Loan Revolving Fund to a level where it really can no longer meet the requirements of the Loan Guaranty Revolving Fund. We've seen that happening with almost every revolving fund in our government. Interesting.

Therefore, if these current policies continue, the Loan Guaranty Revolving Fund will require annual appropriations from the Treasury in order to remain functional. And in order to reduce that possibility, or at least to assure that it won't happen again if we have to do it, it's important we take a careful look at the operation of the program, try to review the policies concerning the methods of satisfying guarantees of fund foreclosure in the VA policy regarding property management and disposition.

And of course, for some recent times we've seen the drafts and the final drafts and the mid drafts of the Grace Commission and the Congressional Budget Office and the Inspector General. And those reports have made recommendations concerning the loan guaranty program.

Interestingly enough, the recommendations range from some rather dramatic changes to some moderate changes to no changes at all; which is curious. And the fiscal year 1985 budget proposal announced rather sweeping changes in the operation. This administration has now postponed those changes and apparently reconsiders now the scope of the changes that will ultimately have to be made.

I hope we can get a better sense of the administration's intention regarding the program after today and take a careful look at the many issues that have been raised regarding this program during the last several months.

Today we'll also consider S. 1922, which is the proposed Veterans' Housing Foreclosure Assistance Act of 1983 introduced by our fine colleague on the committee, Senator Specter, which would provide mortgage assistance to veterans with homes that are guaranteed by the VA in order to avoid the foreclosure upon those loans. I appreciate his efforts and enjoy working with him on the committee.

I do have some reservations about that legislation. I think that comes from practicing law for 20 years where we see a gesture—a very good faith gesture—to assist those who find themselves in financial peril by even placing them further in debt for a short period of time. I wonder about that and I'm concerned about that.

And I hope that we'll be able to find from you and from the witnesses that we do have pretty broad authority now to take care of these veterans who are in extremity with regard to their loans or see whether we need statutory authority.

And we'll consider legislation introduced by my good friend, Al Cranston, who is the ranking minority member of this committee, that proposes to increase the maximum guaranty provided by the VA from $27,500 to $35,000.

Just a quick word. He has gracefully withdrawn from the fray this morning in New Hampshire. Al Cranston did that with real grace. And it shows that grace and personal strength which is his.

He chose to get into the arena. So many people in this country simply criticize and carp and sit on the fence and he decided not to. And he got right down in the dust and the grit and I admire that very much. But being a man of great pride and personal fire he decided to step out. And he is a doer and not just a critic and I admire him greatly. So I say he went in with class and he comes out with class.

So to he and Norma, I extend my kindest regards and best wishes and admire their effort. It will be good to have him back.

The written statements of Hon. Alan Cranston, ranking minority member of the Senate Committee on Veterans' Affairs; Hon. Strom Thurmond, a U.S. Senator from the State of South Carolina; and

Hon. Arlen Specter, a U.S. Senator from the State of Pennsylvania, will be placed in the record at this point. I will also place in the record at this point the texts of the bills, S. 1922 and S. 2265; the introductory statements and the agency reports thereon.

[The written statements of Senators Alan Cranston, Strom Thurmond, and Arlen Specter; the texts of the bills, S. 1922 and S. 2265, previously referred to, the introductory statements of the authors of the bills, and the agency reports thereon, follow:]

PREPARED STATEMENT OF HON. ALAN CRANSTON, RANKING MINORITY MEMBER OF THE SENATE COMMITTEE ON VETERANS' AFFAIRS

I am pleased to join you, Mr. Chairman, in welcoming everyone here to today's hearing on the VA's home-loan guaranty program.

On January 18, I wrote my good friend, Al Simpson, to urge that he schedule an oversight hearing on the VA's home-loan guaranty program at the earliest convenient time. Thus, I congratulate him on moving forward so swiftly with today's hearing. Because the Committee has not had a hearing to focus on issues in this area since 1980, there is clearly a great deal of ground to cover.

When I contacted the Chairman in January, I urged that a number of specific issues be covered at this hearing, including --

- the recommendations of the President's Private Sector Survey on Cost Control Task Force (the so-called Grace Commission) with respect to the VA's home-loan guaranty program;

- the effect on the VA's program of enactment on November 30, 1983, of legislation (in title IV of Public Law 98-181) providing for interest rates on FHA-insured loans to "float" rather than be subject to a maximum prescribed by the Secretary of Housing and Urban Development; and

- the VA's efforts to assist veterans who, as a result of becoming unemployed, have encountered difficulties in making mortgage payments on VA home loans.

I am pleased that each of these items is on the Committee's agenda this morning.

In addition, I want to extend to the Chairman my appreciation for including on the agenda consideration of S. 2665, a measure I introduced on February 7, together with Senators Randolph, Matsunaga, and DeConcini, to increase the VA home-loan guaranty maximums.

Two closely-related areas of concern today are the VA's policies and practices with respect to acquisition of properties at foreclosure, vendee financing, and the sale of vendee loans without recourse, and, second, the solvency of the loan guaranty revolving fund in both FY 1984 and FY 1985.

As I have noted on several occasions, I have very serious concerns about the effects on veteran homeowners and prospective homeowners of the proposal -- formally set forth in the President's budget (page 5-140) and VA budget documents (pages 2-3 and 16-21) that, on March 1, 1984, the VA reverse its policy of nearly always purchasing at foreclosures the homes securing VA home loans and, instead, to begin a policy of simply paying off the guaranty in all cases. Thus, I was pleased to learn from Administrator Walters, in response to my January 18 inquiry to him, that implementation of this policy reversal would not occur as planned. Rather, as he stated in his February 6 letter to me, the VA would "be working with other Federal agencies involved in insurance or guaranty of home loans to develop a consistent policy with respect to foreclosure procedures."

In this connection, I also note that Mr. Walters, at this Committee's February 8 hearing on the FY 1985 budget for veterans' programs, advised that he did not think the status of the proposed new policy would be resolved until "late fall, at the earliest." Nevertheless, according to February 22, 1984, letters to the Chairmen and Ranking Minority Members of the Veterans' Affairs Committees and the Appropriations Subcommittees on HUD-Independent Agencies from Office of Management and Budget Director David Stockman, the implementation date for the changes in the loan guaranty program procedures is now October 1, 1984.

I want to emphasize at this point my strong disagreement with this Administration's position that the VA's policy in this area should be determined by its consistency with Government-wide policy and my keen disappointment that, as Mr. Walters stated at our Committee's February 8 hearing, he considered it necessary in the budget negotiating process with OMB to agree with this position. I agree that the VA should attempt to coordinate its efforts with other agencies and be fully cognizant of the policies of those other agencies and how they interact with VA programs. However, I believe very strongly that VA policies should be based on making VA programs work effectively for the benefit of the veterans for whom the Congress established them. Thus, I am disappointed that the Administrator seems to have agreed to let consistency with other agencies -- as opposed to ensuring the efficient operation of VA programs for the benefit of eligible veterans -- be the touchstone with respect to policies in this area.

Accordingly, I will be following this issue very closely and will be prepared to pursue any legislative action that may be necessary and appropriate to protect the VA home-loan program and the interests of the veterans it was established to serve.

With respect to the viability of the program and the solvency of the VA's loan guaranty revolving fund, it is my understanding that, in the absence of the implementation of this new policy, an appropriation may be necessary to ensure the solvency of the loan guaranty revolving fund. The question is how much and when? According to informal estimates from the Congressional Budget Office, assuming the VA continues its present property acquisition practices and policies, an appropriation of $126.8 million will be necessary in FY 1984, to be followed by appropriations of $108.6 million and $8.6 million in fiscal years 1985 and 1986, respectively. I hope that we will today be able to determine the Administration's estimation of the need for any supplemental FY 1984 appropriation and for any supplemental FY 1985 appropriation to ensure the solvency of the revolving fund.

In addition, we need to explore ways to ensure the solvency of the revolving fund in the long term as well as the immediate future.

We will also need to determine what additional funding and FTEE's will need to be restored to the VA's general operating expense account in FY 1984 and FY 1985 for the employees whom the VA would not have needed if it had implemented the proposed new policy.

Turning to the issue of interest rates, I note that, in response to my December 23, 1983, letter to Mr. Walters, the VA intends "to continue to administer the maximum interest rate chargeable on VA-guaranteed loans." As the Ranking Minority Member of this Committee and a senior member of the Committee on Banking, Housing, and Urban Affairs, I intend to monitor carefully the VA's stated plan to review "significant market indicators on a constant basis" and to continue "consultations with HUD's financial management staff".

Finally, Mr. Chairman, I look forward to learning more from the VA about its efforts to assist unemployed and other veterans in dire financial straits who are in danger of losing their homes because of difficulties in making their mortgage payments. As you may recall, I wrote the VA on this issue last April 27. Administrator Walters' response of May 19, 1983, explained in great detail the VA's efforts in this area, and I look forward to reviewing the implementation of those policies. In this regard, I would also note my deep concern that another part of the changes in VA loan-guaranty procedures announced in the FY 1985 budget documents was for the VA to terminate its policy of "refunding" loans in certain instances of delinquency -- that is, paying the lender the balance of the loan, taking an assignment of the loan, and then working out a more feasible payment plan to enable the veteran to remain in the home while regaining the ability to meet the home-loan obligations. This issue also needs to be explored. Finally, I will be reviewing questions regarding whether there is a need to provide for some sort of foreclosure assistance and the extent to which such a program would actually be in the veterans' best interests.

In closing, I want to stress again, as I noted at the Committee's hearing on the budget earlier this month, that I am prepared to support an appropriation for the loan guaranty revolving fund in any amount needed to keep it solvent without relying on the implementation of the new policy against acquisitions of property at foreclosure. I am very grateful for the participation of all of today's witnesses, look forward to reviewing all of their testimony, and want to note that I will be submitting written questions to them.

Mr. Chairman, at this point, I ask unanimous consent that copies of all the correspondence I have noted be printed, together with a copy of my introductory remarks on S. 2665, in the hearing record following this statement.

United States Senate
COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, D.C. 20510

April 27, 1983

Honorable Harry N. Walters
Administrator of Veterans' Affairs
810 Vermont Avenue, N.W.
Washington, D.C. 20420

Dear Harry,

I am writing in connection with the problems that many veterans and their families are having in keeping their homes during these difficult economic times.

In calendar year 1982, there were 16,206 foreclosures on mortgages secured under the VA's home-loan guaranty program. This represents an increase of 3,155 over the 1981 experience and 5,930 over 1980. In addition, based on data compiled by the Mortgage Bankers Association, it appears that foreclosures on VA loans were initiated at almost double the rate for conventional loans during the third quarter of calendar year 1982 -- .14 percent for conventional loans versus .25 percent for VA loans.

In light of these data, I am writing to inquire about what steps the VA is presently taking to assist veterans in these circumstances, particularly those whose economic problems are the result of temporary joblessness, and to urge that you exercise all authorities at your disposal to provide such assistance.

As I'm sure you know, section 1816(a) of title 38, United States Code, authorizes the Administrator, upon notice of default, to receive an assignment of a VA-guaranteed home loan. Where the veteran's inability to keep up his or her mortgage payments is caused by temporary unemployment and VA efforts to dissuade the mortgage holder from foreclosing are unavailing, it would seem appropriate and prudent for the VA to give every consideration to receiving an assignment, forebearing on foreclosure, and working with the veteran in establishing a reasonable repayment schedule.

In this connection, I would appreciate your advising me as to the content (and sending me copies) of current VA regulations and other directives to the field regarding the VA's taking of assignments and so-called refunding procedures. I would also like to know how many assignments the VA received during each of fiscal years 1977 through 1982 with an indication as to the number of those cases in which the VA proceeded to foreclosure or worked out a procedure for refunding as well as a breakdown by region of the number of such foreclosures, assignments, and refunding procedures. If any of this information is available for any months of fiscal year 1983, I would also appreciate receiving it.

Further, I'd appreciate learning how and to what extent the VA makes veteran homeowners aware of the possibility of these refunding procedures. In this connection, I would note that the Philadelphia Unemployment Project (PUP), in its testimony before the House of Representatives Veterans' Affairs Subcommittee on Housing and Memorial Affairs on April 21, asserted that the VA generally does not advise veterans of that possibility and makes the determination regarding whether to use those procedures without contacting these veterans. I would appreciate your commenting on that aspect of PUP's testimony.

In addition, I would like to have your assessment of whether the policies and practices regarding the VA's use of the section 1816(a) authority to receive assignments are appropriate and whether you have any recommendations or plans for legislative or administrative action with respect to that authority.

Also, I noted that on April 15, 1983, the Philadelphia Inquirer reported that the VA is "planning to impose a national moratorium on the eviction of homeowners from their VA-insured homes" and that the VA regional offices were being instructed "to intercede more actively with mortgage lenders on behalf of veterans in default -- particularly to make sure that lenders accepted partial payments." Although I have been advised informally by your Assistant Deputy Administrator for Congressional Affairs, David Cole, that this article does not accurately state the agency's plans, I would appreciate being advised at the earliest possible opportunity, of the agency's intentions to take any actions designed to help veterans remain in and retain ownership of their homes.

In connection with any consideration the agency is giving to interceding more actively with mortgage lenders, I would like to know to what extent a lending institution's record of cooperating or not cooperating with the VA and veterans in making reasonable efforts to help those who are facing foreclosures and loss of their homes may, under section 1803(d) and (e) of title 38, affect the lender's status as an institution with authority to make automatically-guaranteed loans. That is, can and does the VA withdraw that status in the case of an institution that has a poor record in terms of failing to offer reasonable assistance to veterans?

Thanks, as always, for your continuing cooperation.

With warm regards,

Cordially,

Alan

Alan Cranston
Ranking Minority Member

cc: Ms. Dorothy L. Starbuck

Office of the
Administrator
of Veterans Affairs

Washington, D.C. 20420

Veterans
Administration

MAY 19 1983

Honorable Alan Cranston
Ranking Minority Member
Committee on Veterans' Affairs
United States Senate
Washington, D. C. 20510

Dear Senator ~~Cranston~~: Alan

This is in reply to your letter of April 27, 1983, regarding GI home loans.

It has been the longstanding policy of the VA to encourage GI mortgage holders to extend forbearance to borrowers who find themselves in temporary financial difficulties through no fault of their own. In order to illustrate how this is done, I would like to set forth the procedures followed by mortgage holders and VA when a veteran borrower falls behind in his or her payments.

In loan default cases, the mortgage holder is responsible for contacting the borrower, determining the reason for the default, and making arrangements for repayment of the delinquency. If this cannot be accomplished before three installments are due and payable, the default must be reported to VA together with the holder's explanation of the reason for the default and a summary of its servicing efforts. Upon receipt of such notice, VA takes an active role in working to protect the interests of the veteran borrower and the Government.

VA closely reviews the holder's servicing of the account and advises the holder of any deficiencies in this area. We follow up this review by actively working to supplement the holder's servicing. Our regional offices routinely attempt to contact the borrower by letter, mailgram, telephone and/or personal visits to the property. Once contact has been established, based on the facts in the case, VA personnel may offer financial counseling and/or may intercede with the holder on behalf of the veteran in order to obtain forbearance or arrange a reasonable repayment schedule in appropriate cases. Also, VA is in contact with local agencies that provide assistance in finding jobs for borrowers, or aid with their daily subsistence needs or help in making direct mortgage payments. When appropriate, delinquent borrowers are referred to such agencies and given the telephone numbers or addresses of same so that they may apply for benefits.

VA's partial payment regulations require holders to accept payments of at least half the arrears in appropriate circumstances. These are intended as minimum requirements and do not preclude holders from granting payment plans with lower payment requirements. Further, in many cases, VA intercedes with the holder and negotiates a payment plan in which the initial payment is substantially less than half the arrears and in which the veteran has the ability to maintain the terms of repayment.

If no such arrangements are made, and if the holder files a Notice of Intention to Foreclose, VA regulations require that foreclosure procedures cannot be started for 30 days, during which period VA is afforded additional time to try to service the loan. Even after foreclosure has been initiated, supplemental servicing continues to explore every possibility to assist the borrower.

Every case in which a holder has indicated it will not continue to extend forbearance is reviewed by our regional office personnel in order to consider refunding. This involves the evaluation of many factors, including the current reasonable value of the property, the amount of the indebtedness, whether or not the veteran occupies the property, and the ability of the veteran to care for and maintain the property. In evaluating the veteran's income, we require that he or she presently have the ability to maintain the mortgage obligation or have the potential to resume regular payments within a reasonable time, and to ultimately repay the loan.

Under the GI loan program, VA has discretionary authority to refund loans (38 USC 37, Section 1816(a)). The law does not vest borrowers with any right to have their loans refunded, or to apply for refunding. Nevertheless, VA considers whether refunding is in the best interests of the borrower and the Government in every case before foreclosure. Since refunding is always considered, we do not notify borrowers unless it has already been determined that the loan should be refunded. I believe our present policies regarding the use of 38 USC 37, Section 1816(a), are appropriate.

Miss Dorothy Starbuck, my Chief Benefits Director, recently contacted all field stations personally, and emphasized that VA must consider refunding in each case. This was followed up by the issuance of a refunding circular to all stations. I am enclosing copies of this circular and VA Regulation 4318 which concerns refunding.

In response to your request for statistics concerning GI loans which were foreclosed or refunded, there were 88,922 loans foreclosed and 682 loans refunded in fiscal years 1977 through the first six months of FY 1983. The enclosed chart breaks down these figures by fiscal year and region.

When a default is insoluble, foreclosure is imminent, and refunding is not appropriate, VA considers approving the acceptance of a deed in lieu of foreclosure. If acceptance of the deed will be in both the borrower's and VA's best interests, then VA will approve it. If a deed in lieu is not feasible, and the holder does proceed with foreclosure, the holder will usually convey the property to the VA shortly following the foreclosure sale.

It continues to be VA's policy to extend every reasonable consideration, consistent with the interests of the Government, to former owners who wish to repurchase their homes from VA and who have the financial ability to do so. Many recent foreclosures may be attributed to downturns in the economy which resulted in job layoffs, cutbacks in the number of hours worked per week, and salary reductions. However, there have been recent reports of modest rehirings as well as other signs of economic recovery. Some former owners who have lost their homes through foreclosures may now have recovered their financial abilities, even though they were not able to reinstate their loans prior to foreclosure. Our field offices are instructed to make every reasonable effort to assist former owners in retaining their homes when there is sufficient information to indicate that the loss of the property was caused by circumstances beyond the control of the former homeowner and that these circumstances have changed sufficiently to make it possible for the former owner to commence making required monthly payments.

In cases in which the former owners were able to make only a few payments prior to the foreclosure action, or in other cases in which credit worthiness may be in doubt, VA's interest may be protected best by making some arrangement other than an outright sale with VA financing. Circumstances may justify either renting or leasing the property for a limited time with an option to purchase as a means of determining the former owner's willingness and ability to make the projected monthly payments in a timely manner. The prospective purchaser may be required to make rental payments in an amount approximating the anticipated mortgage payments for a trial period to establish a creditable payment history to the VA. Any rents paid to VA during such a test period, minus the amount paid by VA for property taxes, may be applied toward a downpayment in a subsequent resale to the former owner.

There are other instances, however, in which the financial capability of the former owner remains very limited and it is not possible to effect a resale or conditional rental of the property to the former homeowner. Prior to resorting to eviction proceedings, careful consideration is given to all relevant circumstances. When it is determined that there is little likelihood that the financial status of the former owner will improve in the near future, VA does request that alternative living arrangements be made voluntarily so that eviction does not become necessary. As in the case of resales to former owners, VA extends every reasonable indulgence to occupants who are requested to vacate a property. Steps leading to securing possession of the property are initiated with due regard to the time of year, in order to avoid the necessity for eviction in inclement weather or when undue hardship will result because of the season of the year. VA also takes into consideration the availability of alternative rental housing in the neighborhood as well as the adverse effect which a move at an inappropriate time during the academic school year might have on those families with school-age children. The decision to evict is made only after all pertinent information is evaluated.

Over the years, VA has asked the holder's cooperation in assisting veterans to retain their homes, by granting forbearance and arranging reasonable repayment plans. I am not aware of any major problems that have come to VA's attention regarding a holder's failure to work with VA in this regard. Since there has been no such failure on the part of the holders, VA has not taken any adverse action against holders regarding a problem of this nature. However, VA does have the right to initiate suspension proceedings for a holder's failure to adequately service loans.

Honorable Alan Cranston

In recent years we have been concerned about the adverse impact that economic conditions could have on GI loan borrowers. In this connection, we issued supplemental loan servicing circulars on January 17, 1980, May 8, 1980, January 19, 1982, January 17, 1983, and April 6, 1983, copies of which are enclosed.

I appreciate your continuing interest in VA's Loan Guaranty Program.

Sincerely,

Harry

HARRY N. WALTERS
Administrator

Enclosures

Department of Veterans Benefits
Veterans Administration
Washington, D.C. 20420

DVB Circular 26-80-3

January 17, 1980

SUPPLEMENTAL LOAN SERVICING

1. Economic forecasts and analyses continue to suggest that the country is, or will soon be, experiencing difficulties which will increase the essential costs of living for individual Americans and their families and produce additional unemployment. In the past, we have periodically addressed the adverse impacts which similar economic conditions could have on G/I loan borrowers. Over the past several years, there have been personnel turnovers within VA Loan Guaranty Divisions and within the servicing departments of program participants. The current and projected economic conditions present an appropriate occasion for bringing to the attention of relatively new servicing personnel, both within and outside VA, and for restating to those who have worked with G/I loans over a more extended period of time, our traditional policies and programs for assisting veteran-borrowers who are in temporary financial difficulty as a result of circumstances beyond their control.

2. The servicing of VA guaranteed loans in default is performed in two separate parts: primary servicing by mortgage holders and supplemental servicing by VA itself. Effective servicing is a skill which entails both technical knowledge and human judgment. It involves objective analysis of personal and financial data, and evaluations of individual borrower attitudes toward loan obligations. Accordingly, it has always been VA's purpose to emphasize broad policies and guidelines to further the goals of the G/I loan program, and to rely on the informed judgment of its own personnel and that of G/I loan holders to apply those guidelines to individual cases.

a. Primary Servicing

(1) Briefly expressed, VA expects mortgage holders to follow, or to require their servicing agents to follow, accepted standards of loan servicing, such as are employed by prudent lenders generally in servicing their portfolio of conventional loans. VA policies and applicable regulations authorize holders to extend all reasonable relief to borrowers who are temporarily unable to meet the terms of a loan without prejudicing the holder's rights under the contract of guaranty.

(2) Among the servicing requirements imposed on mortgage holders by VA regulations are those which require the reporting of the default (VA Regulation 4315) and the reporting of the holder's intention to foreclose (VA Regulation 4317). These required reports provide the occasion and the basis for VA supplemental servicing. Complete reports by holders are an invaluable aid to VA supplemental servicing efforts. Each notice should be thoroughly reviewed by a loan servicing technician for completeness and for an initial evaluation of whether the holder's servicing appears to be consistent with VA policies and guidelines. If essential information is missing from the notice, or if the holder's/servicer's action is judged to be plainly inconsistent with VA policies, the holder should be notified accordingly and requested to submit further information, explanation, or evidence of appropriate additional servicing.

(1) Supplemental servicing by VA personnel includes a variety of contacts which may be made with delinquent borrowers: computer-generated letters, individually prepared letters and wires, telephone calls, and face-to-face interviews. VA supplemental servicing is not intended to relieve mortgage holders of their primary servicing responsibility, but rather to assist veterans and to protect the interests of the Government in each loan. Since there are ordinarily financial losses to both the veteran and the Government resulting from the foreclosure of a guaranteed loan, supplemental servicing can protect each interest by assuring the appropriate relief is extended to those veteran-borrowers whose loans can be reinstated within a reasonable period of time.

(2) The preferred method of performing supplemental servicing is personal servicing; i.e., personal contact either by a face-to-face interview or, if feasible, by telephone. Since a G/I loan is typically reported in default to VA after three or four payments are delinquent (except if the property has been abandoned, the borrower refuses to pay, or the property is tenant occupied), personal servicing should be attempted as soon as practicable on all reported defaults when it does not appear that arrangements have already been made for curing the default. If no personal contact is made incident to receipt of a holder's Notice of Default (VA Form 26-6850), further intensified efforts should be made to conduct personal servicing upon receipt of a Notice of Intention to Foreclose (VA Form 26-6851). This is particularly important, since the holder may commence foreclosure proceedings 30 days after filing the Notice of Intention to Foreclose.

(3) The loan service technician who establishes personal contact with delinquent borrowers should determine and discuss the following matters:

(a) The reasons or causes for the default;

(b) Whether the causes are temporary or permanent, including an analysis of the borrower's present and projected financial status; and

(c) The attitude of the borrowers toward the default.

(4) Financial Status of Borrowers

(a) Documentation. An essential criterion that a veteran must meet in obtaining a guaranteed loan is that the contemplated terms of payment required by the loan agreement must bear a proper relation to the veteran's present and anticipated income and expenses. It must be similarly evaluated, in determining whether or not a loan default is curable through any available relief provisions, whether the borrowers' present and anticipated financial situation will enable them to bring the loan current within a reasonable period of time. All financial data obtained from the borrowers should be accurately recorded in the loan folder.

(b) Financial Counseling. Borrowers who are experiencing temporary difficulty in meeting their mortgage obligations should be informed of the availability of, and encouraged to take advantage of, VA financial counseling to assist them in their difficulties.

(c) Non-VA Assistance. Stations should be prepared in appropriate cases to offer delinquent veteran-borrowers advice and assistance in applying for relevant non-VA benefits which may improve their financial status.

(5) Intervention with Holders

(a) When personal servicing indicates to VA that the borrowers have the ability to cure the default, the borrowers will be advised to present their plan directly to the holder/servicer and to keep VA informed of the results. If borrowers and holders in such cases cannot reach an agreement, the LSR (loan service representative) should contact the holder or servicer to discuss the appropriateness of relief measures.

(b) When VA considers that the borrowers' financial condition does not warrant special relief measures, the LSR should discuss with the borrowers the merits of offering a deed in lieu of foreclosure or of selling the property themselves. In cases in which borrowers are considered to have realizable equity in the property, LSR's should assist veterans as needed by requesting additional, but reasonable, extensions of time to permit a private sale of the property.

(6) Refunding. VA's authority to refund guaranteed loans in default is not part of supplemental servicing, as such, although information developed during supplemental servicing provides the basis for refunding determinations.

(a) Purpose. A decision to refund a loan may serve to avoid the foreclosure of a guaranteed loan. The veteran will be afforded the opportunity of retaining and paying for his or her home, and the VA will not be required to pay a claim under loan guaranty or bear the expenses associated with acquiring and reselling the property. Nevertheless, the objective of refunding is not for VA to become the "mortgagee of last resort" and avoid every foreclosure, nor is it to relieve mortgage holders of the task of servicing problem accounts. The objective is to avoid foreclosure of the guaranteed loan in certain cases; i.e., those in which VA has determined that the default may be cured through various relief measures, but the mortgage holder has determined that it would not be prudent from a business viewpoint to grant further relief.

(b) Timing of the Decision. A decision of whether or not to refund a loan for an authorized purpose will be made on each guaranteed loan prior to foreclosure. An affirmative decision to refund a loan may be made at any time after a loan is reported in default. A negative decision should ordinarily be reserved until a decision is made as to the amount VA will specify for credit to the indebtedness incident to the foreclosure.

(c) Delegation of Authority. While various employees may make recommendations regarding refunding, the Administrator's authority to refund has been delegated to the specific VA employees designated in VA Regulation 4342(B). Under ordinary circumstances, the determination on refunding will be made by either the Loan Guaranty Officer or Assistant Loan Guaranty Officer.

(d) Documentation. Every decision on refunding will be documented in the loan folder, including the reason that refunding is or is not being approved. The reason should be based on information in the loan folder. The loan folder should contain data on the borrowers' current financial status or an explanation why the financial data was not obtainable.

(e) Standards. The various factors to be considered in making a decision on refunding are listed in M26-3, chapter 2, paragraph 2.39, and have been reiterated in DVB Circular 26-78-21. Any affirmative decision on refunding must, therefore, be based on an analysis of the veteran-borrower's present and potential financial status which demonstrates that he or she will be able to cure the default within a reasonable period of time. This is, in effect, a modified underwriting decision.

3. Central Office will furnish extracts of this circular to stations for distribution to all lenders, holders, and servicers. Copies of these releases need not be submitted to Central Office.

4. RESCISSIONS: DVB Circular 26-75-8 and changes 1, 3, and 4.

Dorothy L. Starbuck

DOROTHY L. STARBUCK
Chief Benefits Director

Distribution: CO: RPC 2023 plus 25 additional copies to (26A5)
FD FLD: RPC 2023

Department of Veterans Benefits
Veterans Administration
Washington, D.C. 20420

DVB Circular 26-80-17

May 8, 1980

NON-VA ASSISTANCE FOR BORROWERS IN FINANCIAL DIFFICULTY

1. In a further effort to afford delinquent borrowers every opportunity to retain their homes, VA Loan Service Representatives should consider offering such borrowers advice and assistance for obtaining non-VA benefits to improve their financial situation. Therefore, station management should assure that appropriate Loan Guaranty personnel have knowledge of those relief benefits that are currently being offered through Federal, State, local or private organizations; under what circumstances applicants may apply for benefits; and the proper agency to which applications should be submitted.

2. Relief may be in the form of funds or services such as welfare, social services, marriage counseling, unemployment or worker's compensation, CETA (Comprehensive Employment and Training Act) programs, food stamps, food service programs, social security compensation, Medicare and Medicaid, and disaster assistance. The sources of these benefits may include Federal, State and local governments, veterans service organizations, State and local housing authorities, social welfare organizations, labor unions, churches and other charitable agencies, and State and county veterans service offices.

3. Additionally, borrowers may be eligible for real estate tax exemptions and subsidies or rebates for utility costs.

4. While Loan Service Representatives offer financial counseling to delinquent borrowers whenever appropriate, there may be times when the services of competent private financial counseling agencies, some of which are HUD (Department of Housing and Urban Development) approved, will be beneficial to borrowers. On these occasions, VA can suggest to the borrowers that they visit these agencies. In preparation for such referrals, Loan Service Representatives should become aware of and have available a listing of those reputable financial counseling organizations located in their respective areas of jurisdiction.

Dorothy L. Starbuck
DOROTHY L. STARBUCK
Chief Benefits Director

Distribution: CO: RPC 2023 plus 25 additional copies to (26A5)
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January 19, 1982

DVB Circular 26-80-3
Exhibit A
Change 1

TO: All Lenders, Holders and Servicers

The Veterans Administration requests your assistance in extending forbearance to veteran-borrowers who are temporarily experiencing financial difficulties in meeting their mortgage obligations because of current economic conditions.

While the primary responsibility for servicing delinquent accounts rests with the holder of the loan, VA is anxious to provide supplemental servicing to help veteran-borrowers avoid foreclosure. Therefore, in order to provide VA with all the facts surrounding the default, it is requested that VA Form 26-6850 (Oct. 1980), Notice of Default, be completed in detail, including the borrower's telephone numbers and a summary report to support a conclusion that forbearance is or is not warranted.

Holders are reminded that VA regulations specifically provide for certain relief measures which may be of assistance in appropriate cases.

a. Reapplication of Prepayments. VA Regulation 4310 provides that prepayments to principal may be reapplied to cure a default or to prevent a default. Also, lump sum payments from the proceeds of a partial sale of the security may be similarly reapplied.

b. Advances. VA Regulation 4313 provides that a holder may advance funds for maintenance, protective repairs, taxes, assessments, and hazard insurance.

c. Modification. Under VA Regulation 4314, extensions and/or reamortizations may be employed to extend indulgence in case of a default or to prevent imminent default.

d. Acceptance of Partial Payments. VA Regulation 4315(B) provides that holders shall accept partial payments of the total arrearage except under certain conditions.

e. Acceptance of Total Arrearage. VA Regulation 4308(G) provides that holders are normally required to accept funds to cure defaults, so long as they are tendered prior to foreclosure.

VA regulations do not specify any minimum period after which foreclosure must be initiated. Interest which accrues during such time of forbearance becomes a part of the guaranteed indebtedness. Accordingly, holders can assist veterans through forbearance without suffering any loss under the contract of guaranty, and VA encourages holders to do so when the veteran desires to retain his or her home and appears to have reasonable financial prospects for doing so.

Veterans who are unable to retain their homes should be encouraged to effect a private sale as an alternative to foreclosure. When an apparent equity exists in the veteran's home, the veteran should be so informed and should be afforded a reasonable time (including postponements of foreclosure sales) to salvage that equity. If a private sale cannot be arranged, the veteran should be urged to rent the property and apply the rent to the mortgage obligation.

In those cases in which a default is clearly insoluble and the only recourse is to terminate the loan, a deed in lieu of foreclosure should be considered.

We thank you for your past cooperation in assisting veterans to retain their homes and ask that you continue to work with VA in its efforts to avoid foreclosures.

Department of Veterans Benefits
Veterans Administration
Washington, D.C. 20420

DVB Circular [illegible]
Change 2
January 17, 1983

SUPPLEMENTAL LOAN SERVICING

1. The steady increase in the level of unemployment, along with the continued poor state of the economy, has led to a steep, prolonged increase in GI loan foreclosures. While the recent decline in interest rates may help some delinquent borrowers to sell their homes as a means of avoiding foreclosure, the overall outlook for delinquent borrowers is not promising. Consequently, VA should intensify its efforts to assist borrowers to retain their homes.

2. The responsibility for primary servicing falls upon the holder. The holder is required to file a fully completed VA Form 26-6850, Notice of Default, in a timely manner. The quality of the holder's report should be rated according to the guidelines of DVB Circular 26-81-4. In cases of inadequate servicing, the holder should be requested to file an updated report, as outlined in M26-3, paragraph 3.11(e). Holders with consistently below-average quality ratings should be advised by the Chief of Loan Service and Claims on how to improve their performance in this area.

3. VA supplemental servicing should be performed directly after receipt of the Notice of Default in every case in which no satisfactory arrangements have been made to cure the delinquency. An attempt should be made to personally contact the delinquent borrower, either at home or at the place of employment. VA Form 26-8753, Supplemental Servicing Code Sheet (LCS/ARS), should be documented to show what attempts have been made in this regard, whether successful or not. If the effort to effect personal contact is not successful, a mailgram or a personally worded letter should be sent. Personal supplemental servicing should be performed as early as possible, since the loan is already 3 to 4 months past due when VA receives the Notice of Default. It is at this stage that VA can be most effective in assisting the borrower to cure the delinquency. VA Form 26-6808, Loan Service Report, can be used as a guide for the servicing interview. During the course of the interview, the LSR (loan service representative) should ask all questions on the reverse side that are pertinent to the delinquency. The LSR, after comparing income with an estimate of the borrower's monthly expenses, can make appropriate recommendations to the borrower for either curing the default or terminating the loan.

4. In most instances when a personal interview indicates that a delinquent borrower has the financial means to keep up payments on a repayment plan, the borrower should be advised to call the holder and negotiate a plan that will be acceptable to both parties. Most often the holder will grant the request and place the delinquent borrower on a repayment agreement. However, if the borrower advises VA that no agreement with the holder could be reached, the LSR may intervene and call the holder personally in the borrower's behalf. Successful intervention in such circumstances will provide delinquent borrowers with an opportunity, which might otherwise be unobtainable, to avoid the loss of their homes.

5. When a holder is not agreeable to further forebearance but the borrower has the ability to make payments, consideration should be given to refunding the loan as a means of avoiding a foreclosure. (See M26-3, par. 2.39.) In cases when a veteran has a high interest loan and is still employed but has suffered a reduction in income, consideration may be given to refinancing at current interest rates if this will result in a lower monthly payment affordable to the veteran. Guidelines for refinancing consideration are detailed in DVB Circular 26-80-45.

6. When a review of the file indicates that the loan is insoluble, and there appears to be a substantial equity, the homeowners should be contacted and advised to sell the property to protect their equity. Efforts should be made to obtain reasonable time for borrowers to sell before foreclosure is completed. If necessary, holders may be requested to delay foreclosure sale dates to accomplish this. In addition, holders should be asked to postpone foreclosure sales when borrowers show evidence of a firm contract of sale with a definite closing date.

7. In an effort to assist borrowers in avoiding the loss of their homes, we should also consider that every time foreclosure is averted, the Government benefits by avoiding the costly expense of acquiring a property and/or paying a claim. Our interest in aiding delinquent veteran-borrowers, therefore, coincides with a need to protect the interests of the Government.

8. In cases when a loan is insoluble, and there is little or no equity, consideration should be given to accepting a deed in lieu of foreclosure. Acceptance of a voluntary deed will save on foreclosure costs, cut down on possible decreases in the value of the security, avoid having a foreclosure on the borrower's credit record, and remove the possibility of the veteran becoming indebted to the Government.

9. The LSR must carefully balance the need for forebearance with the necessity for a timely foreclosure action. If a loan is insoluble, and there appears to be a delay on the part of the holder to institute or complete the foreclosure, then the holder should be put on notice concerning the provisions of VA Regulation 4319(F).

10. DVB Circular 26-80-3 is changed as follows:

Pages 5 and 6: Remove these pages and insert pages 5 and 6 attached.

11. Stations will reproduce exhibit A of this circular for distribution to all lenders, holders, and servicers. Copies of these releases need not be submitted to Central Office.

Dorothy L. Starbuck
DOROTHY L. STARBUCK
Chief Benefits Director

Distribution: CO: RPC 2023 plus 25 additional copies to (26A1)
FD FLD: RPC 2023

January 17, 1983

DVB Circular 26-80-3
Exhibit A
Change 2

TO: ALL LENDERS, HOLDERS AND SERVICERS

In these difficult times of high unemployment and economic uncertainty, veteran-borrowers are finding themselves temporarily unable to meet their mortgage obligations. It is at times like these that the Veterans Administration needs your continued cooperation in affording veteran-borrowers an opportunity to reinstate their delinquent accounts through reasonable repayment plans and forebearance.

Although you retain the primary responsibility for servicing delinquent loans, the VA performs supplemental servicing in an effort to protect both the veteran-borrowers' and the Government's interests. We therefore ask that the information provided in the Notice of Default (VA Form 26-6850) be as accurate and complete as possible and be submitted timely in accordance with VA Regulation 4315. A personal contact will serve as the basis for the information you enter in items 17-20 of the Notice of Default. The VA uses this information in connection with its supplemental servicing efforts.

In contacts with delinquent borrowers, we have learned that there may be less than full knowledge or implementation of the partial payment regulations on the part of some holders. VA Regulation 4315(B) includes a description of the circumstances when acceptance of partial payments is required. For example, when a borrower has been in default for 4 months, occupies the property, is not in foreclosure, and tenders at least half the full arrears, holders are required to accept the payment. Please refer to the regulation for a more detailed explanation of this topic.

The VA encourages holders to grant forebearance and work out repayment plans when borrowers desire to retain their homes and appear to have the financial ability to do so. In interviews with delinquent borrowers, VA has encountered instances when borrowers indicate an ability to maintain repayment plans but none has been arranged. In such cases, holders are expected to arrange reasonable agreements with delinquent borrowers to repay their arrears.

In cases when a loan is insoluble, it may be advisable to suggest that the borrower put the property up for sale. In certain instances it would be prudent to postpone foreclosure to allow the borrower more time to effect a private sale. It would be proper also to postpone foreclosure action when a homeowner has a signed contract for sale with a definite closing date. There will be no loss of interest in your claim as a result of any postponement or other forebearance granted at VA's request.

When attempts at a private sale are unsuccessful, you should consider asking the borrower to give a deed in lieu of foreclosure. Acceptance of a voluntary deed will save on foreclosure costs, cut down on possible decreases in value of the security, avoid having a foreclosure on the borrower's credit record, remove the possibility of the veteran becoming indebted to the Government, and result in the claim being paid several months sooner than if foreclosure was held.

Your efforts to assist the VA in our endeavor to aid delinquent veteran-borrowers are sincerely appreciated.

Sincerely yours,

LOAN GUARANTY OFFICER

TELEGRAPHIC MESSAGE

NAME OF AGENCY VACO WASH DC	PRECEDENCE ACTION: P INFO:	SECURITY CLASSIFICATION
ACCOUNTING CLASSIFICATION	DATE PREPARED 4/1/83	FILE
FOR INFORMATION CALL		
NAME J. EAGAN	PHONE NUMBER 3488	TYPE OF MESSAGE ☐ SINGLE ☒ BOOK ☐ MULTI ADDR
THIS SPACE FOR USE OF COMMUNICATION UNIT		

MESSAGE TO BE TRANSMITTED *(Use double spacing and all capital letters)*

TO:
ALVARO

INFO VAO JACKSONVILLE

APR 6 1983

00/26. DVB CIRCULAR 26-78-21, (Change 1,) ASSISTANCE TO VETERANS TO AVOID LIQUIDATION THROUGH REFUNDING, CHANGE /

1. THIS INFORMATION SUPPLEMENTS THAT FURNISHED IN MY HOTLINE COMMUNICATION OF MARCH 28, 1983, AND FURTHER EMPHASIZES AND CLARIFIES REFUNDING CRITERIA.

2. A LOAN WILL BE CONSIDERED ELIGIBLE FOR REFUNDING WHEN IT IS DETERMINED THAT:

A. THE HOLDER IS UNWILLING TO GRANT FURTHER FORBEARANCE.

B. THE VETERAN DESIRES TO RETAIN AND OCCUPY THE PROPERTY.

C. THE VETERAN HAS SHOWN AN ABILITY TO CARE FOR AND MAINTAIN THE PROPERTY.

D. THE VETERAN HAS A PRESENT OR POTENTIAL ABILITY TO SATISFACTORILY RESUME REGULAR PAYMENTS WITHIN A REASONABLE TIME, AND TO REPAY THE LOAN.

E. THE ESTIMATED NET VALUE OF THE PROPERTY EXCEEDS THE UNGUARANTEED PORTION OF THE LOAN.

PAGE NO. 1	NO. OF PGS. 2	SECURITY CLASSIFICATION

TELEGRAPHIC MESSAGE

NAME OF AGENCY	PRECEDENCE ACTION INFO.	SECURITY CLASSIFICATION
ACCOUNTING CLASSIFICATION	DATE PREPARED	FILE
FOR INFORMATION CALL		
NAME	PHONE NUMBER	TYPE OF MESSAGE ☐ SINGLE ☐ BOOK ☐ MULTIPLE-ADDRESS

THIS SPACE FOR USE OF COMMUNICATION UNIT

MESSAGE TO BE TRANSMITTED *(Use double spacing and all capital letters)*

TO:

3. EVERY GUARANTEED LOAN MUST BE INDIVIDUALLY AND CAREFULLY REVIEWED AND CONSIDERED FOR POSSIBLE REFUNDING PRIOR TO LIQUIDATION. REFUNDING WILL BE IN THE BEST INTERESTS OF THE VETERAN AND THE GOVERNMENT WHEN IT IS DETERMINED THAT FORECLOSURE WILL BE AVOIDED AND THE LOAN EVENTUALLY REPAID.

4. STATIONS MAY CONTACT CENTRAL OFFICE (261) CONCERNING CASES WHICH APPEAR TO BE CANDIDATES FOR REFUNDING BUT DO NOT PRECISELY MEET THE SPECIFIED CRITERIA.

5. CONFIRMING ISSUE WILL FOLLOW. 26/20

PAGE NO. 2	NO. OF PGS. 2	SECURITY CLASSIFICATION

STANDARD FORM 14
REVISED 11-80
GSA FPMR (41 CFR) 101-35.306

Previous edition usable [illegible] U.S. Government Printing Office: [illegible]

4318 (§36.4318). REFUNDING OF LOANS IN DEFAULT

(A) Upon receiving a notice of default or a claim for a guaranty or a notice under VA Regulation 4317, the Administrator may within 30 days thereafter require the holder upon penalty of otherwise losing the guaranty or insurance to transfer and assign the loan and the security therefor to the Administrator or to another designated by [the Administrator] upon receipt of payment in full of the balance of the indebtedness remaining unpaid to the date of such assignment. Such assignment may be made without recourse but the transferor shall not thereby be relieved from the provisions of VA Regulation 4325.

(B) If the obligation is assigned or transferred to a third party pursuant to subparagraph (A) of this paragraph, the Administrator may continue in effect the guaranty or insurance issued with respect to the previous loan in such manner as to cover the assignee or transferee. (Mar. 1, 1946)

GI LOANS FORECLOSED OR REFUNDED

	FY	Total Foreclosed	Eastern Region	Central Region	Western Region
	77	15,382	6,337	5,391	3,654
	78	13,889	6,961	5,238	1,690
	79	12,586	7,169	4,556	861
	80	10,254	5,155	4,140	959
	81	11,861	4,252	5,619	1,990
	82	15,108	3,943	7,604	3,561
st mos)	83	9,842	2,110	5,062	2,670

	FY	Total Refunded	Eastern Region	Central Region	Western Region
	77	51	7	15	29
	78	47	17	23	7
	79	55	24	21	10
	80	162	63	41	58
	81	188	80	59	49
	82	115	41	39	35
t mos)	83	64	17	28	19

December 23, 1983

Honorable Harry N. Walters
Administrator of Veterans' Affairs
810 Vermont Avenue, N.W.
Washington, D.C. 20420

Dear Harry,

As you know, section 404 of the Supplemental Appropriations Act, 1984, Public Law 98-181, eliminated the requirement that the rate of interest for FHA-insured home loans be established by the Secretary of Housing and Urban Development. Rather, the rate of interest for any particular FHA loan will be negotiated between the lender and borrower at the time that the loan is made.

Concerns have been expressed to me about the effect of this provision on your authority under section 1803(c) of title 38, United States Code, to determine the maximum rates of interest applicable to VA-guaranteed home loans. Section 1803(c) requires you, in establishing those rates, to consult with the HUD Secretary.

On November 17, during the Senate's consideration of the conference agreement on the supplemental appropriations measure, Senator Garn noted that he and I had discussed this issue and were in agreement that the provisions applicable to the FHA program do "not affect the VA's current authority to establish maximum interest rates." He also stated that he and I shared the expectation that "the Administrator would continue to exercise his authority in the best interest of our Nation and our Nation's veterans." The next day, November 18, in my floor statement as part of the Senate's consideration of S. 1388, the proposed "Veterans' Compensation and Program Improvements Amendments of 1983", I also addressed this issue, noting my earlier discussion with Senator Garn and our agreement that "the Administrator of Veterans' Affairs would continue to have his existing independent authority to set interest rates for VA-guaranteed loans whether or not the FHA provision is enacted." Enclosed for your reference are copies of these excerpts from the Congressional Record for November 17 and 18.

As I also indicated in my remarks on November 18, I will be pressing for hearings next session on the VA's home-loan guaranty program generally. In view of the enactment of section 404 and the discussion above, it would be helpful to learn at this time what changes, if any, may be forthcoming pursuant to section 1803(c) in setting VA maximum interest rates and consultating with the HUD Secretary thereon. I would appreciate your advising me about your plans in this regard.

As always, thanks for your cooperation and I look forward to receiving your response.

With best wishes for a joyous holiday season and a healthy and happy New Year,

Cordially,

Alan Cranston
Ranking Minority Member

Enclosures

FISCAL YEAR 1984 SUPPLEMENTAL APPROPRIATIONS BILL CONFERENCE AGREEMENT—SENATE APPROPRIATIONS COMMITTEE STATUS

[In billions of dollars]

	Fiscal year 1984—	
	Budget authority	Outlays
Action to date by Appropriations Committee ²	[illegible]	[illegible]
H.R. 3959, conference agreement	[illegible]	[illegible]
Possible later requirements	[illegible]	[illegible]
Adjustment to conform mandatory programs to budget resolution assumptions	+1.8	+1.4
Appropriations Committee total	579.7	512.4
Committee 302(a) allocation ³	[illegible]	[illegible]
Senate-passed level	[illegible]	[illegible]
House-passed level	[illegible]	[illegible]
President's request	[illegible]	[illegible]
Committee total compared to:		
Committee 302(a) allocation	−0.2	−0.2
Senate-passed level	[illegible]	[illegible]
House-passed level	−(¹)	+(¹)
President's request	[illegible]	[illegible]

¹ Less than $50 million.

² Includes enacted regular appropriation bills, regular appropriation bill conference reports agreed to in both Houses, the continuing resolution in all other cases, and other prior actions.

³ Includes reserve fund allocations made on September 14 and October 27, 1983.

Note.—Totals may not add due to rounding.

✓ Mr. GARN. Mr. President, regarding the provision in my amendment which would prohibit the Secretary of HUD from prescribing a fixed interest rate for FHA mortgages, I want to clarify a matter that has been raised with me by the distinguished Senator from California (Mr. CRANSTON) who serves as the ranking minority member on the Senate Veterans' Affairs Committee, as well as on the Banking Committee with me. We have discussed the concerns of many veterans about the effect of the provisions of the pending amendment on the authority of the Administrator of Veterans' Affairs under section 1803(c) of title 38, United States Code, to determine the maximum rates of interest applicable to VA guaranteed home loans.

We are in agreement that the pending FHA proposal, if enacted, would not affect the VA's current authority to establish maximum interest rates. The title 38 authority in section 1803(c) does require that the Administrator consult with the HUD Secretary in establishing the interest rates applicable to VA guaranteed loans. However, the Administrator is in no way bound by the HUD Secretary's view. Whatever authority the VA Administrator presently has with respect to setting the interest rates for VA guaranteed loans, he would continue to have if this FHA provision were enacted.

Certainly, Mr. President, the Senator from California (Mr. CRANSTON) and I would both expect that the Administrator would continue to exercise his authority in the best interest of our Nation and our Nation's veterans.

NINETY-PERCENT FUNDING OF STATE FINANCED RENT SUPPLEMENT AND RENTAL ASSISTANCE PAYMENTS IN PUBLIC LAW 98-63

Mr. D'AMATO. Mr. Chairman, I would like to state for the record that I appreciate the efforts that you personally have made to enable the 1983 housing bill to become a reality in the last few days before Congress recesses. In the hurried atmosphere in which the House and the Senate has been able to achieve a compromise, I want to be sure that I understand correctly the intent of the committee with regard to certain legislative language in Public Law 98-63. Sections 218 and 219 of the bill address the funding of rent supplement and rental assistance payments which run to State assisted, non-FHA insured projects. I want to be sure that the intent of these provisions is to assure that all units contact for such assistance will receive at least 90 percent of the amount necessary to cover rent increases and changes in the incomes of eligible tenants required under amendments to the subsidy contracts. As you know, we have labored over the amount of funding for these units over the last 2 years. An acceptable compromise was reached this year when the 1983 supplemental appropriations bill provided that beginning with fiscal year 1984, the RAP and rent supplement units will receive, in addition to the 1983 base amount, funds to cover 90 percent of the necessary increases due to increased rent changes and changes of tenant incomes. I want to be sure that the committee intends that the full 90-percent funding is required under the statute.

Mr. GARN. I thank the Senator for his expression of appreciation for my effort in producing this compromise. It is the intention of the committee that amendments to a project for the number of units occupied by eligible tenants on the date of enactment assisted under the RAP and rent supplement programs on uninsured State projects be funded to a full 90 percent of the amount necessary to cover changes in rents or tenant incomes. This authorization statute reflects the agreement reached in the 1983 supplemental appropriations bill, whereby Congress provided that the full 90-percent funding of such amendments are required.

Mr. LAUTENBERG. Will the Chairman yield?

Mr. GARN. Yes, I will yield to the Senator.

Mr. LAUTENBERG. I would like to thank the distinguished Senator from New York for raising this important point. I agree with the chairman that these provisions regarding RAP and rent supplement are drafted to assure that a full 90-percent funding of amendments are required.

Mr. GARN. I appreciate the Senator's comments. For the record, I believe that Secretary Pierce has already expressed his intent to fund the full 90 percent of the amendments to these units which we require under this legislation. I would like to read a letter which I have recently received from Secretary Pierce, the last paragraph of which addresses the issue we now discuss.

THE SECRETARY,
DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT,
Washington, D.C., November 2, 1983.

Hon. JAKE GARN,
Chairman, Subcommittee on HUD-Independent Agencies, Committee on Appropriations, U.S. Senate, Washington, D.C.

DEAR SENATOR GARN: The Senate Report on P.L. 97-377 directed the Department to develop a comprehensive funding plan to meet the long-term needs of projects being assisted under the Rent Supplement and Rental Assistance Payments (RAP) programs. Our original Budget proposals included both short-term and long-term measures designed to meet fully the anticipated needs of insured Rent Supplemental and RAP projects. However, the Department did not request any funding for projects that had been financed by State Housing Agencies, and the Report directed us to deal with the needs of both insured and non-insured projects.

In large part, this issue was resolved by the subsequent enactment of the FY 1983 Supplemental Appropriations Act (P.L. 98-63) which set-aside up to $114 million to be used for non-insured Rent Supplement and RAP projects. In compliance with the Committees direction, I am writing to summarize the steps we are taking to assure adequate funding for both insured and non-insured projects under the two subsidy programs.

INSURED AND SECRETARY-HELD PROJECTS

During FY 1984, the Department intends to continue converting insured and Secretary-held Rent Supplement and RAP units to funding under Section 8 Loan Management Set-Aside. The FY 1984 Appropriations Act includes 40,000 units of Section 8 specifically targeted for this purpose. (That Act also includes another $1.3 billion for subsidized housing, the allocation of which has not yet been determined.) The FY 1984 Budget also assumes the use of $33,300,000 in short-term Rent Supplement and RAP amendments for projects which have not yet converted to Section 8. Amounts not required for amendments under these two programs will be rescinded. The FY 1984 Appropriations Act authorizes the rescission of up to $106.6 million of contract authority and an estimated $2.9 billion of budget authority under the two programs.

We estimate that by the end of FY 1983, as many as 64,101 eligible Rent Supplement and RAP units will still lack a Section 8 reservation. Therefore, while we expect that an allocation of at least 40,000 units in FY 1984 will meet the bulk of conversion demand in that year, additional Section 8 funding will ultimately be needed. The Department is committed to providing sufficient authority to convert all remaining insured and Secretary-held Rent Supplement and RAP units to Section 8 as quickly as possible. Depending on the response of owners, the process should be completed in FY 1985.

STATE-AIDED, NONINSURED PROJECTS

The FY 1983 Supplemental Appropriations Act (P.L. 98-63) signed by the President on July 30, 1983, contains the Congressionally-mandated plan for funding Rent Supplement and Rental Assistance Payments (RAP) amendments for State-aided, non-insured projects. Specifically, the Act sets aside up to $50,828,000 in Rent Supplement contract authority and $63,365,000 in RAP contract authority to cover amendments for the remaining term of outstanding Rent Supplement and RAP contracts for non-insured projects. HUD is to fund fully required amendments in FY 1983. Beginning in FY 1984, HUD funding will be by Senators Byrd, Randolph, Matsunaga, DeConcini, Sasser, and Exon.

Mr. President, the provisions of section 209 are designed to enable the VA—on a 1-year trial basis—to avoid the long delays between the completion of preliminary plans and the initiation of the final design and working drawings for certain VA medical facility major construction projects. This purpose would be achieved by permitting the agency to use up to $25 million in its major construction account working reserve to undertake working drawings for those projects in fiscal year 1984 despite the fact that they have not yet been approved in the appropriations process or by the Veterans' Affairs Committees. Thus, the selected projects could be expedited and construction contracts for those approved by the Congress could be advertised and awarded as early in fiscal year 1985 as the completion of the working drawings would allow—rather than in fiscal year 1986 or 1987.

The up to $25 million that the VA would be permitted to use for the working drawings would come from the VA's major construction account working reserve. This reserve consists of funds not expended on some projects because of lower than anticipated costs. However, from time to time, a substantial amount of funds accumulates in the working reserve and the VA—with accountability to the Appropriations Committees—uses the reserve where needed to augment other projects. I believe these reserve funds also should be available to be used for working drawings.

Section 209 of the bill is designed to limit in a number of ways the risks involved in testing this approach during the 1-year trial basis.

First, the total amount that could be expended on any one set of working drawings would be limited to $2.5 million. This limitation would have the effect of restricting the size of the entire project since the VA estimates that working drawings generally cost approximately 6 percent of the entire cost of a project. As a practical matter, because of the $2.5 million restriction on the amount that may be obligated on working drawings for any one project, the largest project that might benefit from the enactment of this provision would be one estimated to cost in the range of $42 million. Thus, working drawings for major replacement and modernization projects—those most likely to be subject to controversy—could not be carried out under this new authority.

Second, in lieu of congressional preapproval of these projects, the VA would be required to provide to the House and Senate Committees on Veterans' Affairs and on Appropriations advance notice of proceeding to working drawings on a particular project. That notice would be required to include the cost of the working drawings and an estimated range of the total cost of the project.

Third, the proposed authority to use the working reserve for working drawings would exclude working drawings for the replacement or new construction of a complete health care facility. I believe that a viable experiment can be carried out without giving the VA authority at this point to proceed—without formal congressional approval—farther down the road to construction of complete health care facility projects than is permissible under current law.

Fourth, before exercising the authority to obligate any funds from the major working reserve for working drawings for a particular project, the Administrator would be required to determine that the amount involved will not be needed for contingencies rising in connection with other VA construction projects.

Mr. President, I believe that this provision will help the Congress determine whether it wishes to provide a more permanent authority along these lines or perhaps to extend the experiment. I would also note that the committee has indicated—on page 43 of the committee report—its intention to study carefully those projects selected for working drawings in fiscal year 1984 and their progression through the construction process. If this provision is enacted, I will be participating fully in that review process.

Mr. President, based on an examination of the VA's current construction activities, there are some 50 projects that could be candidates for consideration for working drawings to be undertaken prior to October 1, 1984, and thus to be expedited under the provision in the bill. Not each of those projects would be benefited by the enactment of this provision nor am I suggesting that any particular project be funded for working drawings. Moreover, current schedules are subject to change, and not each potentially eligible project may be ready to proceed to working drawings nor would there be sufficient funds to undertake all of them.

I want to stress that this provision would result in no additional expenditures since the dollars expended on working drawings in fiscal year 1984 would almost certainly otherwise be expended in fiscal year 1985. In addition, over the longer run—since projects that are expedited will not suffer from the usual 12-month-or-more delay—savings might actually result from the enactment of this provision.

OTHER PROVISIONS OF S. 1388 AS REPORTED

Mr. President, there are three other provisions of S. 1388 to which I will make brief reference: sections 114, 202, and 206.

Section 114 is derived from the provisions of S. 859, which was introduced by Senator Thurmond on March 18 and which I am pleased to cosponsor. This section of the bill would permit a veteran whose service-connected disability has been rated as total for at least 10 years to elect to continue receiving payment of compensation at the total disability rate pending review and appeal of a determination to reduce or discontinue the veteran's compensation as the result of a change in the service-connected or employability status or physical condition of a veteran. Compensation payments made as a result of the veteran's election under this provision would be subject to repayment if the veteran loses on appeal.

I strongly support this provision as a fair and compassionate means of averting the financial hardship that can result from what is ultimately determined to be an erroneous reduction or termination of benefits on which the veteran has depended for a lengthy period.

Section 202 would repeal the December 31, 1989, termination date for the current Vietnam-era GI bill and provide for reimbursement to the VA by the Department of Defense for all amounts of Vietnam-era GI bill benefits paid by the VA after December 31, 1989. This section of S. 1388 was based on provisions I introduced on January 26, 1983, in S. 8, the proposed "All Volunteer Force Educational Assistance Act," as well as on provisions in a measure, S. 667, introduced by our committee chairman (Mr. Simpson) on March 3. This provision is designed to assist the armed services in their efforts to retain personnel who entered on active duty prior to January 1, 1977, and thus have Vietnam-era GI bill eligibility. The thrust of the provision is to achieve this purpose by making it unnecessary for active duty personnel to leave the service in order prior to December 31, 1989, to pursue education using their GI bills benefits without being encumbered by the constraints of active duty service.

Section 206 would include in the definition of "special disabled veteran" for the purposes of certain veterans' employment programs those individuals in receipt of compensation for disabilities rated 10- or 20-percent disabling if they have been determined, under the VA's rehabilitation program for service-connected disabled veterans, to have substantial employment handicaps. I proposed this provision, which is based on a provision I authored earlier this year in the Emergency Veterans' Job Training Act of 1983, Public Law 98-77, in order to liberalize somewhat the definition of special disabled veterans for purposes of affirmative action under chapters 41 and 42 of title 38, United States Code.

VA HOME-LOAN GUARANTEES

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Finally, Mr. President, I note that there are two provisions that would affect the VA's home-loan guaranty program. First, section 204 of the bill would permit substitution of a veteran's home-loan guaranty entitlement when the veteran-transferee is not an immediate transferee. Second, section 205, which I propose be included based on comparable language in a House-passed bill, H.R. 2948, would provide for the guaranty of a loan for the purchase or refinancing of a manufactured home on the same terms and conditions as a conventionally built home under two conditions: first, if the manufactured home is or will be permanently affixed to a lot; and second, if the home as so affixed, is regarded as real property under the law of the State where the lot is located.

Mr. President, I want to take this opportunity to call to my colleagues' attention another housing related issue about which I have some concerns and which was addressed during the Senate's debate yesterday on the Housing IMF amendment to the Supplemental Appropriations Act, 1984, by my colleague, the distinguished chairman of the Committee on Banking, Housing, and Urban Affairs (Mr. Garn). His remarks appear in the Record of November 17 at page S16534.

Specifically, my concerns in this area are related to questions raised by many veterans about what effect a so-called "floating" or "negotiable" interest rate under the FHA home-loan program—which the aforementioned amendment would bring about—would have on the VA's home-loan guaranty program. As my good friend, Senator Garn, noted yesterday, he and I have discussed this matter and are in agreement that the FHA proposal, if enacted—as it appears virtually certain that it will be—would not affect the VA's current authority to establish maximum interest rates. As he pointed out yesterday, the Administrator of Veterans' Affairs would continue to have his existing independent authority to set interest rates for VA-guaranteed loans whether or not the FHA provision, is enacted.

Mr. President, I believe that this issue and, indeed, the entire area of the VA home-loan guaranty program should be reviewed by the Committee on Veterans' Affairs. We need to evaluate the practical effect of a "floating" FHA rate and other important matters of concern. One other such matter is the House-passed measure, H.R. 2948, and its companion, S. 1922, introduced by my good friend from Pennsylvania who serves with me on the Veterans' Affairs Committee (Mr. Specter). These measures would establish a program of mortgage foreclosure assistance for veterans. As the ranking minority member on the committee, I will urge that hearings be held early next year on these and other housing matters.

BOARD OF VETERANS' APPEALS

Mr. President, I am pleased to note that, in addition to the provisions of S. 1388 as reported by the committee, there will be added to the pending measure, at my suggestion, provisions to the VA's Board of Veterans' Appeals—BVA—the administrative body of last resort on claims for VA benefits.

Mr. President, these are identical to provisions in sections 103, 104, and 105 of S. 636, the proposed "Veterans' Administration Adjudication Procedure and Judicial Review Act", as reported by the committee on May 18, 1983, and passed by the Senate, in H.R. 2936, on June 15. Thus, they have the full support of the members of our committee.

These provisions would increase the statutory limitation on the size of the BVA from 50 to 65 members in order to help deal with the very substantial backlog of cases—over 42,000 in 1982—on the BVA's docket; would authorize the appointment of temporary BVA members for terms of not more than 1 year when all 65 BVA positions are filled, and of acting members, for a period of not more than 30 days, or 60 days total in any single fiscal year, to serve in the temporary absence of regular members; and would preclude a temporary or acting member from casting a vote in any case where the votes of the two regular members are split. The provisions would also require the Administrator to report annually to Congress on the implementation of the provisions authorizing the appointment of temporary and acting BVA members; and would require the Chairman of the BVA to report to the appropriate committees of the Congress annually on the Board's current and future workload and its ability, based on then current and projected staffing, to dispose of appeals in a timely manner.

Mr. President, S. 636 from which these provisions are drawn is a comprehensive bill dealing with judicial review of VA claims decisions, the payment of reasonable fees to attorneys for representing claimants before the VA, and the VA's internal adjudication and regulation-issuing procedures. I want to make clear that by asking that these few provisions from S. 636 as passed by the Senate be considered outside of that legislation, my longtime, very strong support of legislation providing for judicial review of VA decisions on benefit claims has not changed or lessened in any way. I would much prefer to address these provisions in the context of that more comprehensive legislation. However, in view of the reluctance of the other body to deal with the judicial review issue at this point and my concern about the impact of the very significant backlog which the BVA is now facing on its ability to render fair and appropriate decisions in a timely manner and the need to take prompt action to help reduce that backlog, I support moving forward with these provisions in the pending measure at this time.

STEPS LEADING TO CONSIDERATION OF S. 1388

Mr. President, I have been aware of some confusion among veterans and others about the status of S. 1388, the proposed "Veterans' Compensation and Program Improvements Amendments of 1983", as reported by the Committee of Veterans' Affairs on September 28, and I would like to discuss briefly my views and actions over the last month in pursuing Senate consideration of the Committee—reported bill.

The principal purpose of S. 1388 as reported is to provide for a cost-of-living adjustment—COLA—in the rates of VA compensation payable to service-connected disabled veterans and of survivors' dependency and indemnity compensation. There are no higher priorities among veterans' programs than these programs.

I want to make as clear as I possibly can that, as ranking minority member of the Committee on Veterans' Affairs, my position is and has been since shortly after the bill was reported on September 28, that the Senate ought to proceed to the consideration of this legislation as soon as possible. I have actively urged that this be done. My reasons for doing so have been twofold: First, moving ahead with legislation once it is reported and on the calendar is the normal procedure followed by our committee, and I see no reason to do otherwise in this case—especially in light of the fact that progress on the bill serves to assure our Nation's service-connected disabled veterans that the COLA will be enacted in time for the increased rates to be paid on time. Second, I have been eager to offer an amendment to it that addresses what I believe are the most important unresolved issues regarding the VA compensation program today, namely compensation for veterans exposed to agent orange and radiation. This amendment is identical to S. 1651, which I introduced, along with Senators Specter, Mitchell, and Biden, on July 20, and to an amendment which Senators Specter, Mitchell, and I offered—but which failed on a 6 to 6 tie vote—during committee consideration of S. 1388 on July 21. It would require the VA to develop regulations, through an informal process allowing for public participation and subject to judicial review, for the adjudication of agent orange and radiation claims.

In order to obtain prompt Senate consideration of this measure, I and the minority staff have repeatedly raised this matter with my very good friend, the chairman of the committee (Mr. Simpson) and the majority staff, and urged that the bill be scheduled for Senate action. He and I are nearly always in agreement on veterans' matters and generally work in close harmony on committee business—especially procedural matters. Unfortunately, that has not until today been the case with respect to consideration of this bill.

Until Tuesday of this week it has been the position of the distinguished Committee chairman that the bill should not be considered this year at all—but rather should be brought up some time after February 24 of next year when the agent orange "Ranch Hand" report is due from the Air Force. Then, on Tuesday, the chair-

ALAN K. SIMPSON, WYO., CHAIRMAN

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ROBERT T. STAFFORD, VT.
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ARLEN SPECTER, PA.
JEREMIAH DENTON, ALA.
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SPARK M. MATSUNAGA, HAWAII
DENNIS DE CONCINI, ARIZ.
GEORGE J. MITCHELL, MAINE

United States Senate
COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, D.C. 20510

January 18, 1984

Honorable Alan K. Simpson
Chairman
Senate Committee on Veterans' Affairs
Washington, D.C. 20510

Dear Al,

I am writing to urge that you consider scheduling at the earliest convenient time in the forthcoming Session an oversight hearing on the VA's home-loan guaranty program.

As you know, the Committee has not had a hearing to focus on issues in this area since 1980. There are a number of matters that I believe the Committee should review and consider carefully. Specifically, I would hope that a hearing would focus on the recommendations of the President's Private Sector Survey on Cost Control Task Force with respect to the VA's housing program, the effect on the VA's program of "negotiable" interest rates now applicable under the FHA program, and the VA's efforts to assist veterans who, as a result of becoming unemployed, have encountered difficulties in making mortgage payments on VA home loans. On the first two issues, I'm enclosing copies of my recent letters to Harry Walters that outline my concerns in more detail.

As always, Al, I'll appreciate your attention to this request.

With warm regards,

Cordially,

Alan

Alan Cranston
Ranking Minority Member

Enclosures

ALAN K. SIMPSON, WYO., CHAIRMAN
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United States Senate
COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, D.C. 20510

January 18, 1984

Honorable Harry N. Walters
Administrator of Veterans' Affairs
810 Vermont Avenue, N.W.
Washington, D.C. 20420

Dear Harry,

The President of the Mortgage Bankers Association of America, Felix M. Beck, has recently contacted me to express their concerns arising from a recommendation made by the President's Private Sector Survey on Cost Control Task Force relating to the VA's home-loan guaranty program. Enclosed for your reference is a copy of Mr. Beck's December 15, 1983, letter to Chairman Simpson on this matter.

Specifically, his concern is that the VA might reverse its general policy of acquiring title to homes securing VA mortgage loans that have gone into default. Rather, it is feared, the VA will respond to defaults by paying loan holders the guaranteed portion of the loan, leaving the lender to dispose of the property. As pointed out in the letter, such a change in policy could have a far-reaching and harmful impact on many veterans attempting to utilize their entitlements under the VA's home-loan guaranty program.

Thus, I would appreciate your reviewing each of the points raised by Mr. Beck and letting me have your comments on them. In addition, I would urge that the VA take no action to implement any such policy change until after the Congress has had an opportunity to consider its consequences. In this regard, I have today written to Chairman Simpson requesting that oversight hearings on the VA's home-loan guaranty program be schduled early in the forthcoming Session so as to permit the Committee to review this issue as well as other issues in the housing area.

Thank you for your attention to this matter. I look forward to hearing from you soon.

With warm regards,

Cordially,

Alan

Alan Cranston
Ranking Minority Member

Enclosure

Office of the
Administrator
of Veterans Affairs

Washington DC 20420

Veterans
Administration

FEB 6 1984

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Honorable Alan Cranston
Ranking Minority Member
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510

Dear ~~Senator Cranston~~: Alan

This is in reply to your recent inquiry concerning any changes being planned to the procedure for establishing the maximum interest rate chargeable for VA-guaranteed loans.

We are aware of Public Law 98-181 and its effects in eliminating the authority of the Secretary of the Department of Housing and Urban Development to establish the maximum interest rate for most types of FHA-insured loans. I appreciate and agree with your views that this legislation did not affect the VA loan program, and we will continue to administer the interest rate chargeable for VA-guaranteed loans.

In carrying out this responsibility, we will make every effort to avoid any significant departure from past rate-setting practices. As long as the statute charges VA with the duty to set a maximum interest rate, we consider it important to closely regulate such rate. It is only through orderly and timely rate changes that we can successfully moderate the cost of home financing for veterans and still minimize the amount of discount points lenders must charge.

To this end, we will be carefully monitoring significant market indicators on a constant basis. We will also continue our frequent consultations with HUD's financial management staff, whose expertise and extensive market survey activities will be most helpful in our efforts to effectively administer the VA interest rate.

I hope this information satisfactorily responds to your questions on this matter.

Sincerely,

Harry

HARRY N. WALTERS
Administrator

Office of the
Administrator
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Washington DC 20420

Veterans
Administration

FEB 6 1984

Honorable Alan Cranston
Ranking Minority Member
Committee on Veterans' Affairs
United States Senate
Washington, DC 20510

Dear Senator ~~Cranston~~: Alan

This is in reply to your inquiry concerning comments by Mr. Felix M. Beck, President, Mortgage Bankers Association of America, in regard to implementation of a proposed change in the GI loan program.

The President's Budget for Fiscal Year 1985 requires that, as a matter of policy, VA should not acquire property in connection with the foreclosure of GI home loans. This change in policy was to have been implemented by VA effective in 1984.

VA shares your concern over the possible effects of policy changes.

We are now advised that there will be no general prohibition on acquisition of properties at foreclosure. Rather, we in VA will be working with other Federal agencies involved in insurance or guaranty of home loans to develop a consistent policy with respect to foreclosure procedures which will be applied as general government policy.

I am sure this more positive action toward a national policy alleviates the concerns you have expressed.

Your interest is appreciated and we are pleased to have the opportunity to explain VA's position in this matter.

Sincerely,

Harry

HARRY N. WALTERS
Administrator

OFFICE OF MANAGEMENT AND BUDGET

FEB 22 1984

Honorable G.V. Montgomery
Chairman, Committee on
Veterans Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I would like to advise you of a change in the budget of the Veterans Administration, as presented in the President's FY 1985 Budget.

Because the changes in the procedures of the VA loan guaranty program will require regulatory changes (as will those of FHA), we are revising the implementation date of those changes to October 1, 1984. This will allow your committee to conduct hearings on these programs and participate with us in the modifications.

We will continue to work with the Congress to produce modifications to bring the program under control without affecting its usefulness to veterans.

Sincerely,

DAVID A. STOCKMAN

David A. Stockman
Director

IDENTICAL LETTERS SENT TO HONORABLE ALAN K. SIMPSON, HONORABLE ALAN CRANSTON, HONORABLE JOHN P. HAMMERSCHMIDT, HONORABLE JAKE GARN, HONORABLE WALTER D. HUDDLESTON, HONORABLE EDWARD P. BOLAND AND HONORABLE BILL GREEN

PREPARED STATEMENT OF HON. STROM THURMOND, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

MR. CHAIRMAN:

It is a pleasure to be here today to receive testimony concerning the Veterans' Administration Loan Guaranty Program and proposed legislation concerning that program.

I want to commend you, Mr. Chairman, for scheduling this hearing so expeditiously and for recognizing the need to consider the operation of the VA loan guaranty program. This program is one that has been of great assistance to our Nation's veterans since World War II, assisting more than 11.5 million veterans in the purchase of homes since that time.

Mr. Chairman, last year a recommendation included in an early draft report of the Grace Commission suggested that the VA should cease its current practice of acquiring, in 95 percent of cases, properties involving defaulted VA guaranteed home loans. Instead, it was recommended that the VA pay their guaranty in each of these cases. This early Grace Commission recommendation and other significant changes appeared in the President's proposed budget for the VA for fiscal year 1985, with a proposed effective date of March 1, 1984.

It is my understanding that the Administration has announced postponement of these changes until October 1, 1984, and is reconsidering the scope of the changes that will be made. While there appears to be a great deal of evidence that paying the guaranty in every case of foreclosure on a VA guaranteed mortgage is not advisable, it does appear that there is significant room for improvement in the administration of this program, and that these improvements can be achieved without reducing the usefulness of the program to veterans.

Mr. Chairman, I also want to note that there has been a great deal of controversy and comment regarding the recommendations made by the Grace Commission. However, whether the Grace Commission's recommendations are accepted in full, or in part, or not at all, I think it is important that it has served the purpose of identifying areas that need the careful attention of Congress. In this regard, I believe that today we have a prime example of the Commission's usefulness. This program has not been reviewed by Congress in many years, and it appears that the evaluation that we will begin today is overdue.

Mr. Chairman, we have a distinguished group of witnesses today and I look forward to the testimony that we will receive on this and other important matters before the Committee.

PREPARED STATEMENT OF HON. ARLEN SPECTER, A U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Mr. Chairman, I would like to commend you for scheduling this hearing on the VA loan guaranty program and S.1922, a bill I have introduced to provide mortgage assistance to unemployed and underemployed veterans. This legislation is similar to H.R.2948, which passed the House of Representatives on May 24, 1983.

Beyond the cost of today's continuing unemployment, is the fear which many veterans have of losing their homes. Adverse economic conditions have reduced the capacity of homeowners to continue their monthly payments. The result has been a significant increase in delinquencies on residential mortgages, culminating in massive foreclosures. Veterans have suffered more than most. I am informed by the VA that in 1983, 23,637 veterans mortgages were foreclosed. This represented a 30-percent increase from 1982.

While the Veterans' Administration Loan Guaranty Service has made commendable efforts to prevent unnecessary foreclosures, the number of foreclosures is growing. Evidently, more needs to be done.

I have proposed a short-term program of assistance for veterans who are unemployed or significantly underemployed through no fault of their own. The veteran must be at least six months delinquent in his mortgage payments and there must be some prospect of repayment of the assistance. A maximum of $8,400 would be available, disbursed directly to the mortgage holder to be used as full or partial payment. The veteran would have four years to repay the assistance and no assistance loans would be made after two years following enactment.

In order for a veteran to be eligible for assistance, he or she must meet the following criteria: First. The dwelling must be a current residence and occupied by the veteran; Second. The veteran must be at least six months delinquent; Third. The veteran must be unemployed or have had substantial reduction in household income through no fault of his own; and Fourth. The Administrator must determine there is reasonable prospect of resuming mortgage payment within 18 months. This bill is not an entitlement but stipulates that the Administration "may" provide assistance.

Economic conditions seem to be improving, but these veterans will not benefit from full recovery for some time. In the meantime, we must do what we can to assure veterans and their families they will not lose their homes.

I hope the Veterans' Committee will act favorably upon this legislation.

II

98TH CONGRESS
1ST SESSION

S. 1922

To amend title 38, United States Code, to authorize the Administrator of Veterans' Affairs to provide mortgage assistance to veterans with loans guaranteed by the Veterans' Administration in order to avoid foreclosure of such loans.

IN THE SENATE OF THE UNITED STATES

OCTOBER 5 (legislative day, OCTOBER 3), 1983

Mr. SPECTER introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

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A BILL

To amend title 38, United States Code, to authorize the Administrator of Veterans' Affairs to provide mortgage assistance to veterans with loans guaranteed by the Veterans' Administration in order to avoid foreclosure of such loans.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Veterans' Housing Foreclosure Assistance Act of 1983".

MORTGAGE PAYMENT ASSISTANCE TO AVOID FORECLOSURE OF HOME LOANS GUARANTEED BY THE VETERANS' ADMINISTRATION

SEC. 2. (a)(1) Chapter 37 of title 38, United States Code, is amended by inserting after section 1816 the following new section:

"§ 1816A. Loans to refinance delinquent indebtedness

"(a)(1) The Administrator may, at the Administrator's option, provide assistance to a veteran under this section for the purpose of avoiding the foreclosure of a housing loan made to that veteran and previously guaranteed by the Administrator under section 1810 or 1819 of this title (hereinafter in this section referred to as a 'primary loan').

"(2) Assistance under this section shall be in the form of a loan to the veteran. Such assistance may be provided only if—

"(A) the dwelling that secures the primary loan is the current residence of the veteran and is occupied by the veteran as the veteran's home;

"(B) the veteran is at least six months delinquent in payments on that primary loan;

"(C) the veteran is unemployed or has had a substantial reduction in household income (as defined in regulations prescribed by the Administrator) through no fault of the veteran; and

"(D) the Administrator determines that there is a reasonable prospect that the veteran will be able to resume payment on the primary loan within six months after receiving assistance under this section.

"(3) For the purposes of this section, the term 'veteran' includes the surviving spouse of a veteran if the surviving spouse was a coobligor of the primary loan.

"(b)(1) A loan under this section shall be advanced to the holder of the primary loan. The amount of the loan under this subsection shall first be applied to the amount delinquent on the loan guaranteed under this chapter including any amount delinquent on taxes, assessments, and hazard insurance required by the holder to be included in the veteran's monthly payment on the mortgage. Any remaining amount of such loan shall be retained by the holder and shall be applied to future payments including taxes, assessments, and hazard insurance due on the loan and unpaid (in whole or in part) on the date the payment becomes due.

"(2) The Administrator may make more than one loan under this section to a veteran. The total amount of loans under this section to any veteran may not exceed $8,400.

"(c) A loan under this section—

"(1) shall bear interest at the lower of (A) the maximum rate in effect (as of the date of the first loan made to the veteran under this section) for loans guaranteed under section 1810(a)(1) of this title, or (B) the rate on the primary loan;

"(2) shall be secured by a lien on the property securing the primary loan and by such other security as the Administrator may require; and

"(3) shall be subject to such additional terms and conditions as the Administrator may require.

"(d) As a condition of receiving a loan under this section the veteran shall execute an agreement, in such form as the Administrator may prescribe, to repay the loan not later than forty-eight months after the period for which assistance with the last loan under this section is to be provided. If the Administrator determines that the veteran has sufficient income or other resources to do so, the Administrator may require the veteran to make partial payments on the primary loan guaranteed under this chapter during the period the holder of that loan is applying the amount of the loan under this section to payments becoming due on the primary loan.

"(e) Notwithstanding any other law, the Administrator may employ attorneys to bring suit to collect any amount of a loan under this section on which the veteran to whom the loan is made is in default.

"(f) The Administrator's decisions regarding assistance under this section, including whether or not to grant such assistance and the terms and conditions under which such assistance is granted or not granted, are final and conclusive, and are not subject to judicial review.

"(g) The Administrator may not make a loan under this section after the end of the two-year period beginning on the effective date of this section.".

(2) The table of sections at the beginning of such chapter is amended by inserting after the item relating to section 1816 the following new item:

"1816A. Loans to refinance delinquent indebtedness.".

(b) Section 1816A of title 38, United States Code, as added by subsection (a), shall take effect at the end of the sixty-day period beginning on the date of the enactment of this Act.

[From the Congressional Record, Vol. 129, No. 132, pp. S13636-S13637--Senate, October 5, 1983]

VETERAN'S HOUSING FORECLOSURE ASSISTANCE ACT OF 1983

Mr. SPECTER. Mr. President, I rise to introduce legislation to provide mortgage assistance to unemployed and underemployed veterans. This legislation is similar to H.R. 2948, which passed the House of Representatives on May 24.

Beyond the cost of today's continuing unemployment, is the fear which many veterans have of losing their homes. Adverse economic conditions have reduced the capacity of homeowners to continue their monthly payments. The result has been a significant increase in delinquencies on residential mortgages, culminating in massive foreclosures. Veterans have suffered more than most. Within the first 6 months of 1983, 10,000 veterans mortgages were foreclosed. At this rate, foreclosures for 1983 will represent a 30-percent increase from 1982.

While the Veterans' Administration Loan Guaranty Service has made commendable efforts to prevent unnecessary foreclosures, the number of foreclosures is growing. Evidently, more needs to be done.

I am proposing a short-term program of assistance for veterans who are unemployed or significantly underemployed through no fault of their own. The veteran must be at least 6 months delinquent in his mortgage payments and there must be some prospect of repayment of the assistance. A maximum of $8,400 would be available, disbursed directly to the mortgage holder to be used as full or partial payment. The veteran would have 6 years to repay the assistance and no assistance loans would be made after 2 years following enactment.

In order for a veteran to be eligible for assistance, he or she must meet the following criteria:

First. The dwelling must be a current residence and occupied by the veteran;

Second. The veteran must be at least 6 months delinquent;

Third. The veteran must be unemployed or have had substantial reduction in household income through no fault of this own; and

Fourth. The Administrator must determine there is a reasonable prospect of resuming mortgage payment within 18 months. This bill is not an entitlement but stipulates that the Administrator "may" provide assistance.

Economic conditions seem to be improving, but these veterans will not benefit from full recovery for some time. In the meantime, we must do what we can to assure veterans and their families they will not lose their homes.

I hope the Veterans' Committee will take prompt action on this legislation.

Mr. President, I ask unanimous consent that the bill be printed in the RECORD.

There being no objection, the bill ordered to be printed in the RECORD, as follows:

* * * * *

[No. 57]

COMMITTEE ON VETERANS' AFFAIRS, U.S. SENATE

Office of the
Administrator
of Veterans Affairs

Washington DC 20420

Veterans
Administration

DECEMBER 6 - 1983

Honorable Alan K. Simpson
Chairman, Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This will respond to your request for a report by the Veterans Administration on S. 1922, 98th Congress, a bill "To amend title 38, United States Code, to authorize the Administrator of Veterans' Affairs to provide mortgage assistance to veterans with loans guaranteed by the Veterans' Administration in order to avoid foreclosure of such loans."

For the reasons stated below, the Administration strongly opposes enactment of S. 1922.

The bill proposes to add a new section 1816(A) to title 38 which would grant the Administrator discretionary authority to assist certain veteran homeowners who are in temporary financial distress.

The assistance under S. 1922 could be provided to a veteran who currently owns and occupies a home which secures a VA guaranteed loan. The veteran must be unemployed or have suffered a substantial reduction in household income. The veteran's current VA loan (referred to as the "primary loan" in the bill) must be at least 6 months in default, but the veteran must have a reasonable prospect of resuming full payments on the primary loan within 6 months.

A surviving spouse of a deceased veteran would also be eligible for assistance under this bill if such surviving spouse was a co-obligor on the primary loan.

The bill would authorize the Administrator to make one or more loans totaling not more than $8,400 on behalf of a veteran to be advanced to the holder of the veteran's current VA home loan. The holder of the primary loan would use these advances to bring the primary loan current. Any remaining amount of these loans would be retained by the holder to be applied each month to future payments on the primary loan, if necessary. The bill appears to envision that VA would, when feasible, provide a holder with sufficient funds to bring the primary loan current, plus additional funds necessary to make six new monthly payments.

When possible, the veteran would be expected to make partial payments on the primary loan during this initial period, with the VA's advances covering the remainder of the payments due.

Amounts advanced by VA would be a debt owing to the United States by the veteran. This debt will accrue interest at the rate in effect at the time of the first advance for VA loans to purchase homes, or the rate on the primary loan, whichever is less. The new loans will be secured by a lien on the property securing the primary loan. The veteran would be required to repay these new loans within 48 months after the period for which the last loan was provided. In the event a veteran defaulted in his or her obligation to repay this advance, VA would be authorized to employ attorneys to institute collection action in State courts.

Decisions of the Administrator regarding granting assistance under S. 1922 would be exempt from judicial review.

S. 1922 would take effect 60 days following enactment. Advances under this measure could be made only for 2 years following the effective date.

The new Federal program established by S. 1922 is unnecessary and unwise. The most recent economic indicators clearly demonstrate that Federal mortgage relief is not warranted. Unemployment is dramatically decreasing, VA and FHA mortgage interest rates have been reduced, and the foreclosure rate is declining.

S. 1922 would give mortgage lenders and private mortgage insurers perverse incentives to reverse their policy of forebearing on delinquent mortgage payments. Lenders would have a strong incentive to give notice of intent to foreclose at the earliest possible time to make the homeowner eligible for the subsidy. In fact S. 1922 is really a bailout for mortgage lenders who are presently forebearing on delinquent loans.

Repaying the advance would leave the homeowner in a worse position than forebearance or another arrangement worked out with the mortgage lender. The individual homeowner and the private sector can address the problem better without interference from the Federal Government.

The bill contains no income limit or asset test and no limit on the amount of the homeowner's mortgage for eligibility.

In short, the bill provides no targeting to make sure assistance goes to individuals with the greatest need.

The availability of Federal assistance would reverse homeowner priorities for debt repayment and create incentives to go to foreclosure. Delinquent homeowners could pass on to the Federal Government past due payments and future payments for an additional 6 months.

Based on the assumption that 65 percent of the recipients of assistance would repay the advance in full and that such foreclosure costs the VA about $8,600, we estimate enactment of S. 1922 would result in a 5-year net savings of approximately $14.9 million. The estimated cost per year is as follows:

FY	($000) Loan Guaranty Revolving Fund	($000) Direct Loan Revolving Fund	($000) Total
1984	$-31,265	$ 6,345	$-24,920
1985	-38,430	11,375	-27,055
1986	- 7,162	2,400	- 4,762
1987	26,460	-5,255	21,205
1988	26,460	-5,920	20,540
Total	$-23,937	$ 8,945	$-14,992

We have been advised by the Office of Management and Budget that there is no objection to the submission of this report to your Committee and that enactment of S. 1922 would not be in accord with the program of the President.

Sincerely,

Harry N. Walters

HARRY N. WALTERS
Administrator

[No. 65]

COMMITTEE ON VETERANS' AFFAIRS, U.S. SENATE

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 1 1984

Honorable Alan K. Simpson
Chairman
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to your request for the views of this Office on S. 1922, a bill "To amend title 38, United States Code, to authorize the Administrator of Veterans Affairs to provide mortgage assistance to veterans with loans guaranteed by the Veterans Administration in order to avoid foreclosure of such loans."

In its report to your Committee, the Veterans Administration (VA) explains the Administration's reasons for strongly opposing enactment of S. 1922. The new program of Federal mortgage assistance proposed in the bill is unwarranted and ill-timed in light of the improvement in the economy and declining unemployment. Moreover, the VA and lenders are already working to prevent foreclosures whenever possible; these efforts would be undermined if a Federal bailout were available for mortgage lenders and insurers.

The Office of Management and Budget concurs in the views expressed by the Veterans Administration and, accordingly, strongly opposes enactment of S. 1922. Enactment of S. 1922 would not be in accord with the program of the President.

Sincerely,

James M. Frey

James M. Frey
Assistant Director for
Legislative Reference

II

98TH CONGRESS
2D SESSION

S. 2265

To amend title 38, United States Code, to increase the maximum amounts of Veterans' Administration home loan guaranties.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 7 (legislative day, FEBRUARY 6), 1984

Mr. CRANSTON (for himself, Mr. RANDOLPH, Mr. MATSUNAGA, and Mr. DECONCINI) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To amend title 38, United States Code, to increase the maximum amounts of Veterans' Administration home loan guaranties.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 1810(c) of title 38, United States Code, is amended by striking out "$27,500" and inserting in lieu thereof "$35,000".

(b) Section 1811(d)(2) is amended—

(1) in subparagraph (A), by striking out "$27,500" both places it appears and inserting in lieu thereof "$35,000"; and

(2) in subparagraph (B), by striking out "$20,000" both places it appears and inserting in lieu thereof "$22,000".

(c) Section 1819(c) is amended by striking out "$20,000" each place it appears and inserting in lieu thereof "$22,000".

(d) The amendments made by this Act shall take effect on October 1, 1984.

[From the Congressional Record, Vol. 130, No. 12, pp. S1079-S1080--Senate, February 7, 1984]

VETERANS' ADMINISTRATION HOME-LOAN GUARANTY INCREASES

Mr. CRANSTON. Mr. President, as the ranking minority member on the Committee on Veterans' Affairs, I am today introducing S. 2265, a bill to increase, effective October 1, 1984, the maximum amounts of veterans' home loan guaranties. This measure would increase by 27 percent, from $27,500 to $35,000, the maximum amount of the Veterans' Administration loan-guaranty entitlement available to a veteran for the purchase of a conventional home, a single-family residential unit in a condominium, or a farm residence. In addition, the measure would increase by 10 percent, from $20,000 to $22,000, the maximum guaranty for purchases of manufactured homes—formerly known as mobile homes. Joining me as cosponsors are Senators RANDOLPH, MATSUNAGA, and DECONCINI.

The VA loan guaranty is designed to substitute, in large measure, for the down payment that would otherwise be required when a veteran purchases a home. Under current law, the guaranty is limited to 60 percent of the loan amount or $27,500, whichever is the lesser, with regard to conventionally built homes and condominium apartments, and 50 percent or $20,000, whichever is the lesser, in the case of manufactured homes. Lenders are thus assured of the substantial protection afforded by the VA loan guaranty and are generally willing to make loans to veterans without the necessity of a down payment or with a lower down payment than would otherwise be required.

Mr. President, as my colleagues are well aware, housing prices have risen substantially since the most recent increase in the VA loan-guaranty maximum which was enacted by the Congress in 1980 based on an amendment I proposed. According to data provided by the National Association of Home Builders, the median cost of a home in the United States in 1980 was $64,600. In 1984, it is estimated that the median cost will rise to $80,400—an increase of almost 25 percent. Thus, by raising the guaranty by approximately 27 percent to $35,000, we would be insuring that the value of the VA home-loan guaranty keeps pace with increases in the housing market.

In the case of manufactured homes, Department of Commerce data show that, from the third quarter of 1980—1 week after which the last increase in the maximum guaranty was enacted—through the second quarter of 1983, the average sale price of a manufactured home increased by 5 percent. Assuming an additional 5-percent inflationary impact from July 1983 through October 1984, a 10-percent increase in the maximum—from $20,000 to $22,000—would protect that benefit from inflation.

Mr. President, I believe that as more and more veterans seek to use their VA home-loan guaranty entitlement, we need to insure that it is readily available and sufficient to meet their needs. The dramatic doubling of the number of VA home loans closed last year—from about 103,400 loans during fiscal year 1982 to over 245,000 loans in fiscal year 1983—is evidence of the continuing popularity of and demand for the program. According to the President's fiscal year 1985 budget, 225,000 and 240,000 loans will be closed in fiscal years 1984 and 1985, respectively.

This legislation will help to insure that, to the extent interest rates and other economic factors generally make home purchases possible, the VA loan-guaranty program will continue to play the role that Congress intended of helping veterans become homeowners.

Mr. President, it is important to note that—as a result of a recommendation made by the President's private sector survey on cost control—the President's fiscal year 1985 budget indicates that, effective March 1, 1984, the VA would reverse its general policy of acquiring at forfeiture title to homes securing VA mortgage loans. Rather, the VA announced that it would respond to defaults by paying loan holders the guaranteed portion of the loan.

I was and am greatly concerned about any such policy change. When it was first brought to my attention in January, I wrote to Administrator Walters to urge that the VA take no action to implement any such policy change until after the Congress had had an opportunity to consider its consequences. Thus, I was pleased with the VA's decision on February 2 that it has delayed indefinitely the implementation of this change while it continues to study its effect on the program and the veterans it is intended to serve. At this point, I ask unanimous consent that the text of my January 18 letter to Administrator Walters be printed at the conclusion of my remarks in the RECORD.

Mr. CRANSTON. Mr. President, on January 18, 1984, I also wrote to the distinguished chairman of our Committee (Mr. SIMPSON) requesting that an oversight hearing be scheduled on the VA's home-loan guaranty program. I urged that three issues be covered in that hearing: The change in the policy with respect to acquiring titles to homes securing VA mortgages, the effect on the VA's program of negotiable interest rates now applicable to the FHA program, and the effectiveness of the VA's efforts to assist veterans who, as a result of becoming unemployed, have encountered difficulties in making mortgage payments on VA home loans. I ask unanimous consent that the text of this letter also be printed in the RECORD at the conclusion of my remarks.

Mr. President, in addition to these three issues I have mentioned, I will urge that the committee also review the need for an increase in the home-loan guaranty maximum as proposed in the measure we are introducing today.

Mr. President, I ask unanimous consent that the test of S. 2265 and the letters previously mentioned be printed in the RECORD at this point.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

* * * * *

Chairman SIMPSON. So I look forward to hearing your remarks today. And it's good to have you here. The VA witnesses Everett Alvarez, and it's good to see you always, the Deputy Administrator; and Dorothy Starbuck, Chief Benefits Director; and Robert O'Toole; and John, yes, there you are, lurking there on the corner. It's always good to have you. And Ev Alvarez, nice to see you. If you want to proceed.

TESTIMONY OF EVERETT ALVAREZ, JR., DEPUTY ADMINISTRATOR, VETERANS' ADMINISTRATION, ACCOMPANIED BY DOROTHY L. STARBUCK, CHIEF BENEFITS DIRECTOR; ROBERT M. O'TOOLE, LOAN GUARANTY SERVICE DIRECTOR; AND JOHN P. MURPHY, GENERAL COUNSEL

Mr. ALVAREZ. Thank you, Mr. Chairman. It's a pleasure to be here with you this morning to discuss the operation of the Veterans' Administration housing program.

I have a formal statement that I would like to submit for the record.

Chairman SIMPSON. Without objection so ordered.

Mr. ALVAREZ. And with your permission I'd like to take a few minutes to summarize that statement.

Chairman SIMPSON. Please.

Mr. ALVAREZ. Improvements in the Nation's economy are being reflected today in relatively stable interest rates. The current rate of 12.5 percent on VA home loans has been in effect since November 1, 1983. This interest rate stability has been accompanied by an increase in home purchases and a corresponding increase in the VA home loan activity.

Last year Public Law 98-181 eliminated the authority of the Secretary of Housing and Urban Development to establish the maximum interest rate for FHA insured loans. This legislation does not affect the VA. In setting a maximum interest rate for guaranteed loans, we will continue our past rate setting practice of moderating the cost of home financing for veterans and still minimizing the amount of discount points lenders must charge.

A number of new innovations have been introduced, Mr. Chairman, which we believe will improve the productivity of our field stations. For example, standards for approval of lenders authorized to underwrite loans on the "automatic basis" have been revised to increase lender participation in this program.

We have also implemented a procedure which will allow the closing of refinancing loans on the automatic basis. In December 1983, over 46 percent of VA loans guaranteed were made on the automatic basis. We will continue to streamline and improve processing procedures while still protecting the interests of veterans and the Government.

As you know, Mr. Chairman, a number of changes are being considered for our Loan Guaranty Program. These changes are being studied by an interagency task force. Today it is too early to determine the recommendations of this group and what effect these recommendations will have on the VA Home Loan Program.

For the 12 months ending January 1984, the total number of loan guaranty field station employees increased 4.9 percent to a level of 1,997. We expect to be able to continue to perform effectively with our currently authorized staffing levels.

Three other important facts concerning the operation of the Loan Guaranty Program during calendar year 1983 should be noted.

First, over 60 percent of VA guaranteed loans were made without a downpayment from the veteran purchaser.

Second, veterans obtained 14,872 manufactured home loans in calendar year 1983, a 43-percent increase and a new high for the program.

Third, the VA loan program has assisted over 11.2 million veterans to obtain housing since the program was enacted in 1944, totaling almost $221 billion.

The Loan Guaranty Revolving Fund has been significantly depleted during the past 3 fiscal years. Appropriations may be necessary if we are to honor claims submitted under the guaranty.

Mr. Chairman, I am sure the committee would also be interested in receiving information about the Specially Adapted Housing Program for the severely disabled veterans. In calendar year 1983, 405 grants were approved.

Mr. Chairman, you requested that we comment on two bills. The first measure I will discuss is S. 1922. This bill would grant the Administrator discretionary authority to assist certain veteran homeowners who are in temporary financial distress.

The new Federal program proposed by S. 1922, Mr. Chairman, is unnecessary. The most recent economic indicators clearly demonstrate that Federal mortgage relief is not warranted.

S. 1922 may give mortgage lenders and private mortgage insurers the incentives to reverse their policy of forebearing on delinquent mortgage payments. The individual homeowner in the private sector can address the problem better without interference by the Federal Government.

Accordingly, Mr. Chairman, the administration strongly opposes enactment of S. 1922.

The other measure I will discuss is S. 2265. This bill would increase the maximum VA guaranty for conventionally built homes from $27,500 to $35,000, and for manufactured homes from $20,000 to $22,000.

The current $27,500 guaranty would support a loan of $110,000, far in excess of the average VA home loan. The current guaranty provides 44-percent protection on the average VA home loan in the recently ended fiscal year, considerably greater than the 20- to 25-percent downpayment protection normally obtained on conventional loans.

With respect to manufactured homes, a loan would need to exceed $40,000 before the lender would receive less than the full 50-percent guaranty. In fiscal year 1983, the average VA manufactured home loan was $21,020.

Based on these facts, we believe increasing the VA loan guaranty amounts is not warranted.

Accordingly, the Veterans' Administration opposed enactment of S. 2265.

Mr. Chairman, this concludes my summary. I will be pleased to respond to any questions that you or other members of the committee may have.

Chairman **Simpson**. Thank you very much, Ev.

On February 22, I received a letter from David Stockman confirming that the changes announced in the President's fiscal year 1985 budget for the Loan Guaranty Program had been postponed from March 1 till October 1, 1984. Am I correct in assuming that this postponement applied to all of the policy changes announced in the budget, not just that change which would have resulted in the VA paying the guaranty in every case of foreclosure on the VA guaranteed mortgages?

Mr. **Alvarez**. Mr. Chairman, we believe that that is correct. Mr. Walters has more than once affirmed his position that we would look at a complete policy, consider all aspects of any policy changes, and have a consistent policy throughout the Federal Government. We're talking about a consistent policy throughout all the Federal Government. This is the main task of the interagency task force. You are correct on that statement.

Chairman **Simpson**. Will the postponement of these changes included in the budget result in some need for the VA to then later request supplemental funding for fiscal year 1984?

Mr. **Alvarez**. That is one of the items that we are currently addressing. It may be necessary for us to come in with a change in funding and personnel levels.

Chairman **Simpson**. If that's possible, when do you, when is it your conjecture you might run out of money?

Ms. **Starbuck**. We're looking at about the latter part of August, Senator Simpson.

Chairman **Simpson**. You know this year, especially, with the political overtones, regardless of what side you're on in these issues, those supplementals are going to be tough. They're not passed overnight. We're going to get into a CR in September and then a lame duck in November. I can see it all coming.

So you're aware of those budgetary realities?

Ms. **Starbuck**. Yes, we are, Mr. Chairman. And as soon as we can get the package put together it will be submitted.

Chairman **Simpson**. That's very important because it's just not like it has been in the past in this instance, I don't think anyway.

What are the VA's intentions regarding the funding of the Loan Guaranty Revolving Fund for the Revolving Fund itself? And can we expect a submittal of a budget to request an actual appropriation for this program?

Ms. **Starbuck**. If the Revolving Fund does not support the program it will be necessary that we come to the Congress for a supplemental possibly for 1984 and 1985. This will depend, of course, a great deal on the traffic that we put together in selling the inventory that we currently have on hand.

There is a legal question concerning the request for an appropriation and the track that it must follow. And I would ask that Mr. Murphy, our General Counsel, speak to that point.

Chairman **Simpson**. Please, John.

Mr. **Murphy**. It's really pretty much a technical question of whether there can be a direct appropriation to the Fund itself or whether the appropriation would be to the readjustment benefits account followed by an internal transfer from the RB account to the Fund. It, in my opinion, was a technical problem assuming that the money is made available by one way or the other. It really wouldn't be a major block to the funding being available once provided by Congress.

Chairman SIMPSON. Is the administration reevaluating all of the changes that were announced for the program or are there one or more of those changes which have already perhaps been agreed upon and which would become effective on October 1?

Ms. STARBUCK. For the most part, Mr. Chairman, the Federal Housing Administration practices come closer to the Veterans' Administration than do the Farmers' Home Administration, although they are to be included in this.

There are similar practices in each of the agencies and so all of the, basically the four items that were impacted in the budget submission will be the subject of a consensus reaching in that group.

Chairman SIMPSON. There appears to be some unanimity of opinion that the proposal to pay guarantees in all cases of foreclosure on VA guaranteed mortgages is one that would be inappropriate. However, it appears that it is, I think, equally inappropriate to acquire properties in nearly all cases of foreclosure, as the VA does under current practice.

In this recent CBO "Draft Report on the Financial Condition of the Loan Guaranty Revolving Fund Current Status and Future Prospects," the CBO estimates that the number of property acquisitions in fiscal year 1985 would be decreased by some 5 to 15 percent, $70 to $100 million would be saved were the VA to improve the manner in which it determines the most advantageous course of action to be made by the VA in each foreclosure case.

Specifically, the CBO report suggests the addition of a number of cost factors that are not now included in the VA's calculation of the net cost of property acquisition.

Has the VA reviewed this CBO draft report and are you prepared to comment on those suggestions?

Ms. STARBUCK. We have reviewed the draft, Mr. Chairman, and have provided our comments to the Congressional Budget Office comments on that.

Our initial reaction to the inclusion of administrative and interest costs in the computations that are associated with property acquisition was a negative one. But certainly, since we are reviewing the entire policy Government-wide of property acquisition, that will be one of the considerations that will be brought up as we work our way through this interagency group. And certainly the Congressional Budget Office report will serve as a basis for a number of discussions in those meetings.

Chairman SIMPSON. Well, I think it's important that you do that, especially, perhaps, these estimates of property holding costs. I think that's reality.

They suggest, too, that you should include administrative and interest costs in the calculations of the net cost. I think that's important; just a reality of the marketplace.

They say, too, that one that you have overlooked is the portion of the acquisition costs that exceeds the appraised value of the property. And I think that those things should receive your attention.

Ms. STARBUCK. They will, I assure you, Mr. Chairman.

Chairman SIMPSON. And especially then, too, the relationship of appraisers and the VA. We'll dabble in that one. I think that's worth looking at. It's very important.

Ms. STARBUCK. Yes, sir. I don't think—I don't want anyone to have the impression that that 95 percent of the properties being acquired is anything that is stipulated. That's a percentage that works out of the review of each of the individual cases in the field in a loan guaranty officer's decision to either acquire or not to acquire.

Chairman SIMPSON. Could you explain the factors that have led to the rapid increase, in your mind, the rapid increase in the average net loss suffered by the VA in these sales of property purchased after foreclosure?

Ms. STARBUCK. Well, the rapid increase in the acquisition of properties is the result of foreclosures on GI loans. It was absolutely the result of the fact that there were strong industrial shutdowns, people were thrown out of work. It's particularly significant in highly industrialized cities and communities. And there was just no possibility of——

Chairman SIMPSON. Is that where most of them are geographically?

Ms. STARBUCK. Yes, they are, Mr. Chairman. If you would like a list of the geographical spread, we'd be most happy to provide that for the record.

Chairman SIMPSON. I would appreciate that.

Ms. STARBUCK. All right.

[Subsequently, the Veterans' Administration submitted the following information:]

Fifty percent of the properties VA has in inventory are located in the following areas: Ohio, Michigan, Illinois, Indiana, Southern California, Southern Texas. A complete geographic breakdown, by State, is listed below:

Loan guaranty, property management, properties on hand in absolute title as of February 29, 1984

Alabama	345
Alaska	5
Arizona	437
Arkansas	113
California	1,837
Colorado	424
Connecticut	46
District of Columbia	27
Delaware	13
Florida	376
Georgia	387
Hawaii	44
Idaho	167
Illinois	2,063
Indiana	1,117
Iowa	658
Kansas	493
Kentucky	148
Louisiana	149
Maine	86

Maryland	142
Massachusetts	14
Michigan	2,392
Minnesota	397
Mississippi	156
Missouri	351
Montana	120
Nebraska	136
Nevada	142
New Hampshire	16
New Jersey	467
New Mexico	25
New York	304
North Carolina	207
North Dakota	27
Ohio	2,496
Oklahoma	172
Oregon	198
Pennsylvania	506
Rhode Island	2
South Carolina	166
South Dakota	72
Tennessee	323
Texas	1,843
Utah	121
Vermont	10
Virginia	202
Washington	1,031
West Virginia	130
Wisconsin	707
Wyoming	102
Puerto Rico	235

Ms. STARBUCK. The increased losses can be attributed to three things. One is that some of these loans were at a high interest rate. They were also at a higher price. And consequently acquired at a higher price. And in addition, the losses have then increased because of the increased holding time in the Veterans' Administration because where most of our houses are in highly industrial areas the market for sale of those houses is considerably reduced as well.

Chairman SIMPSON. What was the third one?

Ms. STARBUCK. That's three.

Chairman SIMPSON. Oh, that's three.

Ms. STARBUCK. The interest, the high price of the house and the holding time.

Chairman SIMPSON. OK. All right. You doubled one up there. OK.

Ms. STARBUCK. OK.

Chairman SIMPSON. How often does the VA purchase VA guaranteed loans from lenders in order to assist veterans in default?

Ms. STARBUCK. Historically in the past, Mr. Chairman, this has run at somewhere in the vicinity of about 100 cases a year. Within the past 12 to 14 months, recognizing the fact that economic conditions have so drastically affected people who have over the years established equity in their homes, and who have some prospects for future employment and recovery from the situation in which they find themselves, we have asked each of our loan guaranty officials in the field to review these cases of foreclosure to see if an actual refund on the loan would be not only advantageous to the Government but to the veteran, keeping him or her in that home with the prospects of recovery.

We have probably in the last year refunded a little over 200 loans.

Chairman SIMPSON. In this CBO report—and you indicate you're going to look at it, and I think it has provocative suggestions that you should look at—it set out three options there for financing the fund's deficits.

There was one, the appropriation to the fund, general fund, the treasury.

Second was borrowing money from the treasury.

And the third one was a loan origination fee for non-service-connected vets credited to the fund.

What are your thoughts on that option No. 3, if you reviewed it?

Ms. STARBUCK. Well, when this fund was initially called for it had been our hope that the one-half of 1 percent funding fee would go into the Loan Guaranty Revolving Fund. However, it is an established policy that such a funding fee will be paid to the treasury. And that's where the money has been deposited; merely credited to an account with the Veterans' Administration.

John, do you want to say anything further on that?

Mr. MURPHY. No, that's accurate.

We have the one-half percent fee now that goes to general receipts.

Chairman SIMPSON. Now, the CBO report says that that might finance 70 percent of the deficit expected in the fund, I hear, this year?

Ms. STARBUCK. That is correct, sir.

Chairman SIMPSON. Do you think that would be true, if that happened, if we repealed the current law?

Ms. STARBUCK. OK, let me ask Mr. O'Toole to respond.

Chairman SIMPSON. Please.

Mr. O'TOOLE. Mr. Chairman, we collected close to $80 million in 1983 from that fee. And we anticipate another $80 million in 1984. So that would be very close to the amount if you combine those two. That would be very close to the amount that would be needed, the shortfall in 1984.

Mr. ALVAREZ. 83 million in 2 years.

Ms. STARBUCK. Yes.

Chairman SIMPSON. How often does the VA purchase property upon foreclosure of the guaranteed mortgage and then work with the veteran who has defaulted and work out some kind of rent-back or new purchase agreement? How often is that done?

Ms. STARBUCK. We don't have any specific figures on that which break out the resale to the veteran or to another party. But roughly, I would say that about 10 percent of the cases result in a resale to the veteran who was the original purchaser upon whom foreclosure had taken place.

Chairman SIMPSON. What was that figure?

Ms. STARBUCK. About 10 percent. We have no exact figures.

Chairman SIMPSON. But you do try various approaches?

Ms. STARBUCK. Yes; we do, Mr. Chairman.

Chairman SIMPSON. On a case-by-case basis?

Ms. STARBUCK. It would be our hope that the veteran who had made the original loan could be the person who could stay in that house.

Chairman SIMPSON. If S. 1922 were to become law, how often would the VA project that it would utilize its authority to grant loans to veterans who are in default on mortgages? Any idea of that?

Ms. STARBUCK. Well, this so closely parallels the decision that we make with respect to refunding where we see the veteran having some possibility of bringing his loan current in a reasonable time.

It's difficult to say in how many cases we would exercise such authority. As Mr. Alvarez has stated, we do not favor that because we do have the authority to refund and we do consider pretty much the same situation that a veteran would find himself in under S. 1922. And I can't say that it might go beyond 300 or 400 cases a year, Mr. Chairman. And that would mean we would be loosening up a bit even from what we're doing on a refund.

Chairman SIMPSON. So the veterans who would probably qualify for assistance under S. 1922 would be the same ones that you now assist through refunds and assistance and funding?

Ms. STARBUCK. It would be a parallel group. That is correct, Mr. Chairman. And the only thing that happens on the refund that wouldn't happen under S. 1922 is that while—principally the veteran's indebtedness does not change. I mean, his loan is extended for a greater length of time, but we have not then added on the burden of another possibly $8,400 loan that he would be required to repay.

Chairman SIMPSON. Let me ask you this. In light of the obvious financial difficulty of this veteran which we're seeking to assist, do you feel that this projection of a 40-percent default rate on assistance under that program is a realistic one?

Ms. STARBUCK. Well, I don't think it's unrealistic, because what we're dealing with here is an individual who is in financial difficulty, is 6 months in arrears on his house payments. And—do you wish to interrupt, sir?

Chairman SIMPSON. Excuse me, please.

Ms. STARBUCK. And that we're dealing with a person who is on pretty thin ice at the moment. And to further burden him with another possibly $8,400 indebtedness, I think it's of enough concern that that 40-percent figure would not be unreasonable.

Chairman SIMPSON. I have one other question, then I'm going to recognize Senator Thurmond if he has comments. And then I'll submit the rest of my questions in writing.

But this question then: With regard, with this improved economy, which I think is evident to us, the Loan Guaranty Program has become active again. And Senator Cranston, as I indicated, has proposed an increase in the loan guaranty maximums to—maximum to $35,000, houses, $22,000 for manufactured homes.

From your recent experience, do you believe that the VA guaranty maximums that are there now are too low and that a significant number of veterans are currently unable to find willing lenders as a result of that?

Ms. STARBUCK. I don't believe that the current guaranty is too low and we find no difficulty in veterans obtaining loans with that guaranty behind the commitment. The guaranty provides in excess of what a conventional lender might demand in way of downpayment for equity purposes—and that's running 20, 25 percent.

Our average loan is running in the vicinity of $65,000. And so we are in effect, with the current guaranty, guaranteeing up to about 40 percent of that total loan. And with the current guaranty, a veteran can buy a house up to $110,000. And we don't have a lot of those, but nevertheless, that guaranty still satisfies that loan amount.

Chairman SIMPSON. Let me recognize Senator Thurmond who certainly is the most vigorous participant in this committee's activities in every level and for many, many years now. I always appreciate his good advice and counsel.

Senator Thurmond.

Senator THURMOND. I want to thank you, Mr. Chairman, for your kind remarks. Again, I thank you for the great job you're doing on behalf of the veterans.

First, Mr. Chairman, I'd ask unanimous consent that my opening statement follow yours.

Chairman SIMPSON. Without objection, so ordered.

Senator THURMOND. Ms. Starbuck, I just have one question here. I've got to go on over to the Senate in a few minutes.

The Mortgage Bankers Association has expressed serious concerns about the announced changes in the Loan Guaranty Program, the impact that those changes would have on their members and, consequently, the impact on veterans wishing to utilize the program. Now, my question is what is the VA's opinion of the impact that implementation of those changes would have on the lending institutions and veterans?

Ms. STARBUCK. Senator Thurmond, if I may, it would be my judgment—and when I say mine, this is something that I've discussed with Mr. O'Toole as these program changes have surfaced—if in fact the mortgage bankers would be put in the position of becoming the owner of a property following foreclosure, this is a responsibility for which they are not currently equipped and it would be necessary that they staff up or contract for the handling of these properties.

Additionally, with the absence of acquisition of the property by the Veterans' Administration, it would be my judgment that the mortgage bankers would be far more cautious about the properties on which they agree to make loans and they would, without doubt, consider imposing a downpayment in addition to the guaranty. So there would be, I think, a rather natural tightening and an increase in the caution in an approach to a loan by the mortgage bankers.

Senator THURMOND. Ms. Starbuck, as you know, I am very interested in trying to help the veterans in every way I can.

Ms. STARBUCK. Yes, Senator.

Senator THURMOND. In every way that's reasonable. From your long experience—and you've been with the VA for many years—what do you think is the best solution to this problem? I haven't had chance to hear all of the testimony and maybe you've already expressed it, but would you mind just expressing your opinion very briefly as to the best way to help the veterans on this subject?

Ms. **Starbuck**. Well, I think the fact that we have made in excess of 11 million loans through the life of the program historically speaks very well for the utility of the program for veterans. Certainly, with 60 percent of the veterans who obtain a GI loan getting that loan at a no downpayment means that we are in fact helping veterans get into housing of their choice.

The practice of the Veterans' Administration acquiring properties following foreclosure, except for the last few years, has functioned for many years without difficulties. The economic situation of the last 3 years has put us in a bind, it has run us short of money. We are now charged with the responsibility of meeting with other housing program directors to develop a Government-wide policy. It would be our intent that we do reach a consensus with respect to what we consider when we guaranty a loan, what we consider when a loan goes into foreclosure, and what we consider perhaps even when we make a direct loan.

But it would be our intent in all of this that the veteran not have deprived of him his right to a guaranteed loan.

Senator **Thurmond**. Thank you very much.

I wish to thank the able chairman for his courtesy.

Chairman **Simpson**. Thank you, Senator Thurmond.

And I want to recognize a very fine member of the Senate Veterans' Affairs Committee staff, Joe Buzhardt, who came to this staff through the auspices of Senator Thurmond. And this is his last, his last effort for the committee. And on behalf of the full committee and the ranking minority member we submit a resolution of our appreciation to Joe Buzhardt as Associate Counsel for his service for these past 3 years and want to present this resolution to you, Joe. And thank you for your work with this hearing. I know you did that.

Mr. **Buzhardt**. Thank you very much.

Chairman **Simpson**. Thank you very much.

Senator **Thurmond**. Mr. Chairman, could I just say a word on it, too.

I want to compliment Joe Buzhardt for his great interest in the veterans and the fine job he's done in working with me. And I know that he has done his best to work with the full committee, especially the chairman, too.

We appreciate the courtesies that have been extended to him. He's going to move to the Labor Committee and we will have someone to take his place soon.

Joe, I want to express my thanks to you for a fine job done and wish you success in your new assignment.

Thank you again, Mr. Chairman, for your consideration.

Chairman **Simpson**. Thank you, Strom.

Just one other question and then we'll go to the next—to Mr. Sato.

In what percentage of cases where the VA guaranteed mortgages result in foreclosures are the foreclosed parties non-veterans?

Ms. **Starbuck**. I would have to see if we could develop those figures for the record.

Chairman **Simpson**. If you would. I'd be very interested in that. And also those vendee figures I heard you mention there. That interests me.

Ms. **Starbuck**. Bless your sharp little ears, Mr. Chairman.

Chairman **Simpson**. Yes. If you would.

Ms. **Starbuck**. Can do. Will do.

[Subsequently, the Veterans' Administration submitted the following information:]

Ninety-one percent of foreclosures of guaranteed loans in fiscal year 1983 involved the original veteran purchaser. The remaining nine percent were transferees who may or may not have been veterans. A complete geographic breakdown of the percentages, by regional office, is attached.

LIQUIDATION AND CLAIMS SYSTEM
G I LOANS FORECLOSED AND CONVEYED

FY ENDING 09-30-83

OJ STATION	ORIGINAL VETERAN (NAME CONTROL 1)	%	TRANSFEREE (NAME CONTROL 2)	%	TOTAL LIQUIDATIONS
01 BOSTON, MA	59	95	3	5	62
02 TOGUS, ME	60	88	8	12	68
05 WHITE RIVER JCT., VT	8	100	0	0	8
06 NEW YORK, NY	342	87	51	13	393
07 BUFFALO, NY	93	98	2	2	95
08 HARTFORD, CT	51	94	3	6	54
09 NEWARK, NJ	543	90	61	10	604
10 PHILADELPHIA, PA	645	100	0	0	645
11 PITTSBURGH, PA	303	99	3	1	306
13 BALTIMORE, MD	153	93	12	7	165
14 ROANOKE, VA	250	91	25	9	275
15 HUNTINGTON, WV	80	98	2	2	82
16 ATLANTA, GA	443	80	111	20	554
17 ST. PETERSBURG, FL	671	92	60	8	731
18 WINSTON-SALEM, NC	279	86	47	14	326
19 COLUMBIA, SC	186	85	34	15	220
20 NASHVILLE, TN	348	83	73	17	421
21 NEW ORLEANS, LA	156	83	31	17	187
22 MONTGOMERY, AL	473	100	1	0	474
23 JACKSON, MS	136	79	37	21	173
25 CLEVELAND, OH	2,235	95	123	5	2,358
26 INDIANAPOLIS, IN	843	89	107	11	950
27 LOUISVILLE, KY	169	87	26	13	195
28 CHICAGO, IL	2,140	96	99	4	2,239
29 DETROIT, MI	1,162	87	167	13	1,329
30 MILWAUKEE, WI	474	99	4	1	478
31 ST. LOUIS, MO	316	89	38	11	354
33 DES MOINES, IA	326	93	26	7	352
34 LINCOLN, NE	123	90	13	10	136
35 ST. PAUL, MN	401	85	69	15	470
36 FT. HARRISON, MT	83	80	21	20	104
39 DENVER, CO	758	85	129	15	887
40 ALBUQUERQUE, NM	27	69	12	31	39
41 SALT LAKE CITY, UT	183	88	25	12	208
43 SAN FRANCISCO, CA	352	83	71	17	423
44 LOS ANGELES, CA	1,787	93	139	7	1,926
45 PHOENIX, AZ	496	84	96	16	592
46 SEATTLE, WA	829	90	89	10	918
47 BOISE, ID	122	71	50	29	172
48 PORTLAND, OR	198	80	48	20	246
49 WACO, TX	506	88	66	12	572
50 LITTLE ROCK, AR	127	84	24	16	151
51 MUSKOGEE, OK	199	88	26	12	225
52 WICHITA, KS	242	88	34	12	276
55 SAN JUAN, PR	249	97	8	3	257
59 HONOLULU, HI	58	94	4	6	62
62 HOUSTON, TX	1,215	91	116	9	1,331
63 ANCHORAGE, AK	9	100	0	0	9
72 WASHINGTON, DC	188	92	16	8	204
73 MANCHESTER, NH	47	100	0	0	47
US TOTALS	21,143	91	2,210	9	23,353

Chairman SIMPSON. We'd love to have that.

Ms. STARBUCK. Well, I certainly would love to furnish it.

Chairman SIMPSON. Thank you very much.

[Subsequently, the Veterans' Administration submitted the following information:]

No data is available to determine whether purchasers of VA owned properties are veterans.

Chairman SIMPSON. Appreciate your being here, as always, and appreciate your cooperation.

Ms. STARBUCK. Thank you, Mr. Chairman.

[The prepared statement of Everett Alvarez, Jr., Deputy Administrator, Veterans' Administration, and the VA's responses to written questions submitted by Hon. Alan K. Simpson, Chairman of the Senate Committee on Veterans' Affairs, and Hon. Dennis DeConcini, a U.S. Senator from the State of Arizona, follow:]

PREPARED STATEMENT OF EVERETT ALVAREZ, JR., DEPUTY ADMINISTRATOR, VETERANS' ADMINISTRATION

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you this morning to discuss the operation of the Veterans Administration's housing program. I have with me today John P. Murphy, General Counsel, Dorothy L. Starbuck, Chief Benefits Director, and Robert M. O'Toole, Director, Loan Guaranty Service.

Improvements in the Nation's economy are being reflected in relatively stable interest rates. This has permitted VA to keep the interest rate on guaranteed home loans within the 11½ percent to 13½ percent range through all of 1983. The current rate of 12½ percent has been in effect since November 1, 1983. This interest rate stability has been accompanied by an increase in home purchases and a corresponding increase in the VA home loan program. During Calendar Year 1982, VA issued 393,618 certificates of reasonable value and 120,506 certificates of commitment to guarantee loans.

During Calendar Year 1983, the number of Certificates of Reasonable Value issued increased 67.5 percent to 659,345 and certificates of commitment increased 82.7 percent to 220,154. If interest rates remain steady, VA loan volume can be expected to remain at current levels or increase slightly.

One recent development in the housing finance area was the enactment last year of Public Law 98-181 which eliminated the authority of the Secretary of Housing and Urban Development to establish the maximum interest rate for most types of FHA insured loans. This legislation does not affect the VA home loan program, and we will continue to administer the maximum interest rate chargeable on VA guaranteed loans. In carrying out this responsibility, we will make every effort to avoid any significant departure from past rate-setting practices. As long as the statute charges VA with the duty to set a maximum interest rate, we consider it important to closely regulate such rate. It is only through orderly and timely rate changes that we can successfully moderate the cost of home financing for veterans and still minimize the amount of discount points lenders must charge.

To this end, we will be carefully monitoring significant market indicators on a constant basis. We will also continue our frequent consultations with HUD's financial management staff whose expertise and extensive market survey activities will be most helpful in our efforts to effectively administer the VA interest rate.

A number of innovations have been introduced, Mr. Chairman, to improve productivity of field stations. For example, standards for approval of lenders authorized to underwrite VA guaranteed loans on the "automatic basis" without VA reviewing the income and credit of the applicant prior to loan closing have been revised to increase lender participation in this program. We have also implemented a procedure which will allow the closing of refinancing loans on the automatic basis using a national index method for establishing the maximum loan discount a veteran may pay. This allows refinancing loans, including interest rate reduction loans, to be closed by eligible lenders using the automatic procedures. In December 1983, over 46 percent of VA home loans guaranteed were made on the automatic basis compared to approximately 20 percent during 1982. We will continue to streamline and improve processing procedures to allow for approval of GI loan applications in a manner which is quick and efficient while still protecting the interests of veterans and the Government.

As you know Mr. Chairman, a number of changes are being considered for our Loan Guaranty Program. These changes, including the non acquisition of properties, no vendee financing, and the sale of loans without recourse are being studied by an interagency task force. The task force is developing uniform Federal standards for determining when it would be in the best interests of the Government to acquire properties in Federal housing programs. VA, FHA, the Farmers Home Administration of the Department of

Agriculture and OMB are the participants in this task force. It is too early to determine the recommendations of this group and what effect these recommendations will have on the VA Home Loan Program.

During the year ending January 1984, the total number of Loan Guaranty field station employees increased from 1,903 to 1,997, a 4.9 percent increase. We expect to be able to continue to effectively perform the mission of the program with our currently authorized staffing levels.

Three other important facts concerning the operation of the Loan Guaranty program during Calendar Year 1983 should be noted. First, over 60 percent of VA guaranteed loans were made without a down payment from the veteran purchaser. These no down payment loans had an average purchase price and loan amount of $57,299. For those veterans who obtained loans with a down payment, the purchase price averaged $81,128 with an average loan amount of $69,281.

Second, in the manufactured home loan program in Calendar Year 1983, veterans obtained 14,872 loans, a 43 percent increase over the prior year and a new high in manufactured home loan financing. The average purchase price for manufactured homes was $21,753 with an average loan amount of $21,020.

Third, the VA loan program has assisted over 11.2 million veterans to obtain housing since the program was enacted in 1944. Mortgage credit totaling almost $221 billion has been infused into the economy; much of these funds would not have been available without the benefit of this GI Bill program. Over $79 billion worth of these loans have been repaid in full as of last year.

The benefits of the VA Loan Guaranty program are possible for America's veterans because the Congress established the Direct and Loan Guaranty Revolving Funds to pay for the program's expenses except administrative costs. The Loan Guaranty Revolving Fund has been significantly depleted during the past 3 fiscal years. The unobligated balance in the fund will not be sufficient to meet the volume of claims we anticipate will be filed this year. Appropriations may be necessary if we are to honor claims submitted under the guaranty.

Mr. Chairman, the VA made a total of 19 direct loans in Calendar Year 1983 totaling $574,695. Sixteen of these loans were made to veterans also receiving specially adapted housing benefits.

Three were loans which had been "in the pipeline" at the time of the cutoff of the general direct loan funds. Construction or title problems prevented loan closing or full disbursement of the loans until recently.

Mr. Chairman, I am sure the Committee would also be interested in receiving information about the Specially Adapted Housing Program for the severely disabled veterans. In Calendar Year 1983, 405 veterans eligible for the maximum $32,500 Specially Adapted

Housing Grants were approved for such grants. Through Calendar Year 1983, 18,739 veterans have been approved for grants totaling over $294 million. In October 1980, Public Law 96-385 was enacted which authorized grants up to $5,000 to blind veterans and those veterans who had lost or lost the use of both hands to acquire adaptations for their homes. Through Calendar Year 1983, 490 veterans have received such grants averaging $4,567 each.

Mr. Chairman, you requested that I comment upon two bills currently pending before your Committee which pertain to VA's Loan Guaranty program.

The first measure I will discuss is S. 1922. This bill proposes to add a new section 1816A to title 38, United States Code, which would grant the Administrator discretionary authority to assist certain veteran homeowners who are in temporary financial distress.

The assistance under S. 1922 could be provided to a veteran who currently owns and occupies a home which secures a VA guaranteed loan. The veteran must be unemployed or have suffered a substantial reduction in household income. The veteran's current VA loan (referred to as the "primary loan" in the bill) must be at least 6 months in default, but the veteran must have a reasonable prospect of resuming full payments on the primary loan within 6 months.

A surviving spouse of a deceased veteran would also be eligible for assistance under this bill if such surviving spouse was a co-obligor on the primary loan.

The bill would authorize the Administrator to make one or more loans totaling not more than $8,400 on behalf of a veteran to be advanced to the holder of the primary loan. The holder would use these advances to bring the primary loan current. Any remaining amount of these loans would be retained by the holder to be applied each month to future payments on the primary loan, if necessary. The bill appears to envision that VA would, when feasible, provide a holder with sufficient funds to bring the primary loan current, plus additional funds necessary to make six new monthly payments.

The new Federal program proposed by S. 1922, Mr. Chairman, is unnecessary. The most recent economic indicators clearly demonstrate that Federal mortgage relief is not warranted. Unemployment is dramatically decreasing, and VA mortgage interest rates have been reduced.

S. 1922 may give mortgage lenders and private mortgage insurers incentives to reverse their policy of forbearing on delinquent mortgage payments. Lenders would have a strong incentive to give notice of intent to foreclose at the earliest possible time to make the homeowner eligible for the subsidy. In fact, S. 1922 is really a bailout for mortgage lenders who are presently forbearing on delinquent loans. Repaying the advance would leave the homeowner in a worse position than forbearance or another arrangement worked out with the mortgage lender. The individual homeowner and the private sector can address the problem better without interference from the Federal Government.

The bill contains no income limit or asset test and no limit on the amount of the homeowner's mortgage for eligibility. In short, Mr. Chairman, the bill provides no targeting to make sure assistance goes to individuals with the greatest need.

The availability of Federal assistance would reverse homeowner priorities for debt repayment and create incentives to go to foreclosure. Delinquent homeowners could pass on to the Federal Government past due payments and future payments for an additional 6 months.

Accordingly, Mr. Chairman, the Administration strongly opposes enactment of S. 1922.

The other measure I will discuss, Mr. Chairman, is S. 2265. This bill would increase the maximum VA guaranty for conventionally built homes from $27,500 to $35,000, and for manufactured homes from $20,000 to $22,000.

The current maximum guaranty was last increased by Public Law 96-385, which was enacted October 7, 1980. During Fiscal Year 1981, the first fiscal year the present guaranty amount ($27,500) was in effect, the average VA home loan amount was $55,105. A loan for that amount would bear a guaranty of 49.90 percent. The average loan amount in Fiscal Year 1982 was $57,371 and in 1983, $62,127. The guaranty for these loans would be 47.93 percent and 44.26 percent, respectively.

The VA guaranty, Mr. Chairman, is intended to provide the lender the protection provided by a down payment on a conventional home loan. The guaranty protection of over 44 percent on the average VA home loan in the recently ended fiscal year is considerably greater than the 20 to 25 percent down payment protection normally obtained on conventional loans. Experience shows, Mr. Chairman, that the secondary market normally demands 25 percent protection on Government backed home loans. Thus, the current $27,500 guaranty would support a loan of $110,000, far in excess of the average VA home loan amount.

With respect to manufactured homes, Mr. Chairman, the VA guarantees 50 percent of the loan amount, up to a maximum guaranty of $20,000. Therefore, a loan would need to exceed $40,000 before the lender would receive less than the full 50 percent guaranty protection contemplated by the statute. In Fiscal Year 1983, the average VA manufactured home loan was $21,020.

Based on these facts we believe increasing the VA loan guaranty amounts is not warranted.

Accordingly, the Veterans Administration opposes enactment of S. 2265.

Mr. Chairman, this concludes my statement. I will be pleased to respond to any questions that you or Members of the Committee may have.

RESPONSE OF THE VETERANS' ADMINISTRATION TO WRITTEN QUESTIONS SUBMITTED BY HON. ALAN K. SIMPSON, CHAIRMAN OF THE SENATE COMMITTEE ON VETERANS' AFFAIRS

Question 1. WHAT IS THE DEFAULT RATE UNDER THE VA'S LOAN GUARANTY PROGRAM?

Answer 1. AT THE END OF FISCAL YEAR 1983, THE DEFAULT RATE FOR GUARANTEED LOANS WAS 2.14%.

Question 2. WHY IS THE DEFAULT RATE ON VENDEE LOANS MUCH HIGHER THAN THE DEFAULT RATE ON LOANS GUARANTEED BY THE VA?

Answer 2. WHILE VA ORDINARILY APPLIES THE SAME CREDIT UNDERWRITING STANDARDS IN VENDEE LOANS AS IN GUARANTEED LOANS, THERE ARE CASES WHERE HIGHER RISKS ARE QUALIFIED IN ORDER TO EXPEDITE THE SALE OF PROPERTIES ON HAND. WHILE THE APPROVAL OF THESE RISKS DOES LEAD TO A HIGHER INCIDENCE OF DEFAULTS, THIS MUST BE WEIGHED AGAINST THE RISKS OF HOLDING A PROPERTY FOR LONGER PERIODS OF TIME, SUBJECT TO VANDALISM, PROPERTY DETERIORATION AND ADDITIONAL CARRYING COSTS.

WE WOULD LIKE TO POINT OUT THAT THE GUARANTEED DEFAULT RATE AS OF SEPTEMBER 30, 1983 FOR LOANS 3 OR MORE MONTHS PAST DUE WAS 2.14 PERCENT. THE VENDEE LOAN DEFAULT RATE FOR THE SAME PERIOD OF TIME WAS 2.9 PERCENT.

Question 3. WHAT PERCENTAGE OF VA PROPERTY SALES ARE ACCOMPLISHED THROUGH THE USE OF VA FINANCING OR VENDEE LOANS, AND WHAT IS THE DEFAULT RATE ON THOSE LOANS?

Answer 3. IN FISCAL YEAR 1983, VA SOLD 18,647 PROPERTIES, OF WHICH 92.6% WERE FINANCED WITH VENDEE LOANS.

THE DEFAULT RATE ON VENDEE LOANS AS OF SEPTEMBER 30, 1983 IS APPROXIMATELY 2.9%. THIS REPRESENTS THOSE LOANS REPORTED AS BEING DELINQUENT MORE THAN THREE MONTHS AS A PERCENTAGE OF VENDEE LOANS OUTSTANDING. THE AVERAGE LOSS ON SUCH PROPERTIES IN THE FIRST FIVE MONTHS OF FISCAL YEAR 1984 HAS BEEN $6,489 COMPARED WITH AN AVERAGE LOSS OF $9,671 ON GUARANTEED LOAN ACQUISITIONS.

Question 4. WHAT PERCENTAGE OF VENDEE LOANS ARE MADE TO VETERANS?

Answer 4. WE DO NOT HAVE INFORMATION ON THE PERCENTAGE OF VETERANS WHO USE VENDEE FINANCING TO PURCHASE VA-OWNED PROPERTIES.

Question 5. DO YOU BELIEVE THAT IT WOULD BE USEFUL FOR THE VA TO PERFORM CREDIT CHECKS IN ALL CASES WHERE A NON-VETERAN ASSUMES A VA GUARANTEED LOAN?

Answer 5. WE DO NOT BELIEVE THIS WOULD BE USEFUL. CURRENTLY, VA IS NOT INFORMED WHEN AN ASSUMPTION OCCURS UNLESS THE VETERAN REQUESTS THAT VA RECOGNIZE THE ASSUMER AS THE PRINCIPAL OBLIGOR AND RELEASE THE VETERAN FROM LIABILITY ON THE LOAN, OR THE ASSUMER DEFAULTS. IN THE FIRST CASE, VA MUST PERFORM A CREDIT CHECK; IN THE SECOND CASE, A CREDIT CHECK WOULD BE TOO LATE AND WOULD SERVE LITTLE OR NO PURPOSE.

THE VA RISK IS NOT SUBSTANTIALLY INCREASED BY UNRESTRICTED VA LOAN ASSUMPTIONS BECAUSE:

- MOST VETERANS WOULD NOT KNOWINGLY LET A RISKY BORROWER ASSUME THE MORTGAGE.
- WITHOUT SECURING VA APPROVAL, THE VETERAN REMAINS LIABLE.
- MOST ASSUMED LOANS ARE OLDER LOANS WITH SUBSTANTIAL EQUITY.
- THE ASSUMERS USUALLY MAKE SIGNIFICANT DOWNPAYMENTS.
- IN CERTAIN "FORCED-SALE" TRANSACTIONS A QUICK SALE COULD PREVENT A FORECLOSURE; DELAYING THE ASSUMPTION BY REQUIRING A CREDIT CHECK MAY DECREASE THE CHANCES OF AVOIDING FORECLOSURE.

Question 6. WHY IS THE PERCENTAGE OF VA-ACQUIRED PROPERTIES WHICH ARE SOLD WITH VA FINANCING RATHER THAN FOR CASH SO HIGH?

WHAT, IF ANY, EFFORTS HAVE BEEN MADE TO CHANGE THIS EXISTING POLICY?

Answer 6. THE AVAILABILITY OF VENDEE FINANCING PROVIDES HOMEOWNERSHIP AND INVESTMENT OPPORTUNITIES TO FIRST-TIME PURCHASERS AND TO SMALL ENTREPRENEURS WILLING TO INVEST SWEAT EQUITY. SUCH PEOPLE FREQUENTLY CANNOT AFFORD THE DOWNPAYMENTS, PROCESSING AND CLOSING COSTS ASSOCIATED WITH OBTAINING THIRD PARTY FINANCING.

VA'S INVENTORY IS LARGEST AND MOST CONCENTRATED IN ECONOMICALLY-DISTRESSED AREAS WHERE THE MARKET IS POOREST, WHERE BUYERS NEED ATTRACTIVE INDUCEMENTS TO UNDERTAKE LONG-TERM OBLIGATIONS, AND WHERE PRIVATE LENDERS MAY BE MOST WARY OF LONG-TERM EXTENSIONS OF CREDIT.

IF PURCHASERS HAD TO OBTAIN NON-VA FINANCING, VA WOULD HAVE SUBSTANTIALLY INCREASED REPAIR COSTS OR WOULD NEED TO DRASTICALLY REDUCE PRICES. WE ARE PARTICULARLY CONCERNED WITH THE DESTABILIZING EFFECT SUCH PRICE DISCOUNTING WOULD HAVE ON PROPERTY VALUES IN NEIGHBORHOODS.

VA'S POLICY OF RESELLING HOMES TO VETERAN FORMER OWNERS IS DEPENDENT ON THE ABILITY OF VA TO OFFER A VENDEE LOAN TO FINANCE THE RESALE.

IN THE PROCESSING OF OFFERS TO PURCHASE VA-OWNED PROPERTY, PREFERENCE IS GIVEN TO OFFERS WHICH DO NOT REQUIRE VENDEE FINANCING. ALSO, OUR CHICAGO AND CLEVELAND REGIONAL OFFICES FOR THE PAST 14 MONTHS HAVE MADE PRICE CONCESSIONS FOR ALL CASH OFFERS. WE ARE CONSIDERING EXPANDING THIS POLICY TO ALL REGIONAL OFFICES.

Question 7. WERE THE VA TO DISCONTINUE ITS PRACTICE OF SELLING VENDEE LOANS WITH FULL RECOURSE, WHAT DO YOU BELIEVE WOULD BE THE EFFECT ON THOSE SALES?

Answer 7. VENDEE LOANS SOLD WITHOUT THE REPURCHASE GUARANTEE WOULD BE A VERY DIFFERENT PRODUCT - ONE WITHOUT A WELL ESTABLISHED MARKET SUCH AS WE HAVE NOW. THE LOANS WOULD NO LONGER BE ELIGIBLE FOR INCLUSION IN POOLS FOR GNMA MORTGAGE-BACKED SECURITIES OR SIMILAR SECONDARY MARKET PROGRAMS. WE BELIEVE THAT THERE WOULD BE FAR FEWER INTERESTED BIDDERS, AND ANY OFFERS TO BUY WOULD BE AT VERY SUBSTANTIALLY LOWER PRICES.

Question 8. PLEASE DESCRIBE THE QUALIFICATIONS THAT ARE NECESSARY FOR AN APPRAISER TO BE APPROVED BY THE VA AND THE RELATIONSHIP THAT EXISTS BETWEEN THE VA AND ITS APPROVED APPRAISERS?

Answer 8. FOR APPROVAL AS A DESIGNATED FEE APPRAISER, AN APPLICANT MUST SHOW THAT HIS OR HER CHARACTER, EXPERIENCE, AND THE TYPE OF WORK IN WHICH HE OR SHE HAS HAD EXPERIENCE FOR AT LEAST 5 YEARS QUALIFIES THE APPLICANT TO COMPETENTLY APPRAISE. AN APPRAISER ON A FEE BASIS IS NOT AN AGENT OF THE ADMINISTRATOR. FEE BASIS APPRAISERS ARE INDEPENDENT CONTRACTORS AND ARE NOT CONSIDERED EMPLOYEES OF THE VETERANS ADMINISTRATION.

Question 9. HAS THE VA CONDUCTED REVIEWS OF VA APPRAISALS TO DETERMINE THEIR CONSISTENCY WITH GENERAL MARKETPLACE APPRAISALS, AND IF SO, WHAT HAS BEEN THE RESULTS OF THESE REVIEWS?

Answer 9. APPRAISAL REPORTS ARE REVIEWED TO DETERMINE THAT THE APPRAISER'S CONCLUSIONS ARE CONSISTENT, SOUND, SUPPORTABLE, LOGICAL, AND PREPARED IN ACCORDANCE WITH VA INSTRUCTIONS. INDIVIDUAL PERFORMANCE FILES ARE MAINTAINED ON EACH FEE APPRAISER. REVIEW OF THIS FILE BY SUPERVISORY PERSONNEL IS PART OF ON-GOING MONITORING WHICH INCLUDES GROUP TRAINING MEETINGS AND INDIVIDUAL COUNSELING. VA FIELD STATION PERSONNEL ARE REQUIRED TO PERFORM FIELD REVIEWS OF A MINIMUM OF 10% OF ALL FEE APPRAISERS' REPORTS.

Question 10. WHAT EFFECT DO YOU BELIEVE THAT FREEING THE VA INTEREST RATE WOULD HAVE ON VETERANS WISHING TO USE THEIR GUARANTY ENTITLEMENT TO PURCHASE HOMES?

Answer 10. SINCE THE VA HAS HAD NO PREVIOUS EXPERIENCE WITH A NON-ADMINISTERED INTEREST RATE FOR ITS GUARANTEED LOAN PROGRAM, WE ARE UNABLE TO REASONABLY PREDICT WHAT EFFECT A FREED VA INTEREST RATE WOULD HAVE ON VETERANS WISHING TO USE THEIR GUARANTY ENTITLEMENT TO PURCHASE HOMES. WE WILL BE REVIEWING THE EFFECT ON FHA BORROWERS OF THE RECENT FREEING OF THE FHA RATE, AND WITH MORE TIME TO ANALYZE DEVELOPMENTS IN THAT AREA, WE MAY BE IN A BETTER POSITION TO ASSESS HOW SUCH AN ACTION MIGHT AFFECT VETERAN HOME BUYERS.

Question 11. WHAT IMPACT, IF ANY, HAS THE FREED FHA INTEREST RATE HAD ON THE VA TO DATE?

Answer 11. IT IS TOO SOON TO EVALUATE THE IMPACT OF THE FREED RATE ON VA, EITHER ON A SHORT-TERM OR LONG-RANGE BASIS. HOWEVER, WE HAVE OBSERVED NO SIGNIFICANT TRENDS WHICH COULD BE RELATED TO THE FREEING OF THE FHA RATE, WITH RESPECT TO EITHER DISCOUNTS CHARGED ON VA LOANS OR ON VA LOAN VOLUME TO DATE.

Question 12. HOW IS THE VA CURRENTLY ANALYZING ITS MAXIMUM INTEREST RATE LEVEL AND HOW HAS THE VA'S METHOD OF DETERMINING THE NEED FOR INCREASES OR DECREASES IN THAT INTEREST RATE CHANGED SINCE THE FHA RATE WAS FREED?

Answer 12. THE VA IS CURRENTLY ANALYZING THE MAXIMUM VA INTEREST RATE LEVEL ON A CONSTANT BASIS THROUGH FREQUENT AND CAREFUL MONITORING OF AN ARRAY OF SIGNIFICANT MONEY MARKET INDICATORS INCLUDING THE GNMA MARKET AND 20-YEAR TREASURY BONDS. WE HAVE ALSO CONTINUED OUR ONGOING CONSULTATIONS WITH THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S FINANCIAL MANAGEMENT STAFF.

Question 13. IT APPEARS THAT WITH THE IMPROVED ECONOMY, THE LOAN GUARANTY PROGRAM HAS BECOME VERY ACTIVE AGAIN.

SENATOR CRANSTON HAS PROPOSED AN INCREASE IN THE LOAN GUARANTY MAXIMUS TO $35,000 FOR HOUSES AND $22,000 FOR MANUFACTURED HOMES.

FROM YOUR RECENT EXPERIENCES, DO YOU BELIEVE THE VA LOAN GUARANTY MAXIMUMS OF $27,500 AND $20,000 RESPECTIVELY ARE TOO LOW AND THAT A SIGNIFICANT NUMBER OF VETERANS ARE CURRENTLY UNABLE TO FIND WILLING LENDERS AS A RESULT?

Answer 13. WE BELIEVE THAT THE VA MAXIMUM LOAN GUARANTY AMOUNTS ARE ADEQUATE AT THIS TIME. THE MAXIMUM HOME LOAN GUARANTY WAS LAST INCREASED, TO $27,500, BY PUBLIC LAW 96-385, WHICH WAS ENACTED ON OCTOBER 7, 1980. DURING FISCAL YEAR 1981, THE FIRST FISCAL YEAR THE PRESENT $27,500 MAXIMUM GUARANTY AMOUNT WAS IN EFFECT, THE AVERAGE VA HOME LOAN AMOUNT WAS $55,105. A LOAN FOR THAT AMOUNT WOULD BEAR A GUARANTY OF 49.90 PERCENT. THE AVERAGE LOAN AMOUNT IN FISCAL YEAR 1982 WAS $57,371 AND IN 1983, $62,127. THE GUARANTY FOR THESE LOANS WOULD BE 47.93 PERCENT AND 44.26 PERCENT, RESPECTIVELY. THE VA GUARANTY IS INTENDED TO PROVIDE THE LENDER THE PROTECTION PROVIDED BY A DOWN PAYMENT ON A CONVENTIONAL HOME LOAN. THE GUARANTY PROTECTION OF OVER 44 PERCENT ON THE AVERAGE VA HOME LOAN IN THE RECENTLY ENDED FISCAL YEAR IS CONSIDERABLY GREATER THAN THE 20 TO 25 PERCENT DOWN PAYMENT PROTECTION NORMALLY OBTAINED ON CONVENTIONAL LOANS. EXPERIENCE SHOWS THAT THE SECONDARY MARKET NORMALLY DEMANDS 25 PERCENT PROTECTION ON GOVERNMENT BACKED HOME LOANS. THUS, THE CURRENT $27,500 GUARANTY WOULD SUPPORT A LOAN OF $110,000, FAR IN EXCESS OF THE AVERAGE HOME LOAN AMOUNT.

WITH RESPECT TO MANUFACTURED HOMES, THE VA GUARANTEES 50 PERCENT OF THE LOAN AMOUNT, UP TO A MAXIMUM GUARANTY OF $20,000. THEREFORE, A LOAN WOULD NEED TO EXCEED $40,000 BEFORE THE LENDER WOULD RECEIVE LESS THAN THE FULL 50 PERCENT GUARANTY PROTECTION CONTEMPLATED BY THE STATUTE. IN FISCAL YEAR 1983, THE AVERAGE VA MANUFACTURED HOME

LOAN WAS $21,020. BASED ON THESE FACTS WE BELIEVE AN INCREASE IN THE VA LOAN GUARANTY AMOUNTS IS NOT NECESSARY AT THIS TIME.

Question 14. HOW MUCH HAS THE GOVERNMENT COLLECTED IN USER FEES BY FISCAL YEAR, SINCE THOSE FEES WERE IMPOSED AND DO YOU BELIEVE THAT THE USER FEE HAS PROHIBITED A SIGNIFICANT NUMBER OF VETERANS FROM PURCHASING HOMES? HAS IT HAD ANY SUCH "CHILLING" EFFECT?

Answer 14. FUNDING-FEE

FY-83	$77.5 MILLION
FYTD-84 (thru 12/31/83)	$22.2 MILLION

SINCE THE USER FEE MAY BE INCLUDED IN THE LOAN AMOUNT AND PAID FROM LOAN PROCEEDS, ITS EFFECT ON THE ABILITY OF VETERANS TO OBTAIN HOME FINANCING ASSISTANCE HAS BEEN MINIMAL. FOR INSTANCE, THE INCLUSION OF A $300 FUNDING FEE IN A $60,000 30-YEAR LOAN AT THE PRESENT VA INTEREST RATE OF 12 1/2 PERCENT, WOULD INCREASE A VETERAN'S MONTHLY MORTGAGE PAYMENT BY ONLY $3.21.

VA HAS NOT BEEN MADE AWARE OF ANY "CHILLING" EFFECT ON POTENTIAL VETERAN-PURCHASERS IN ANY OF OUR CONTACTS WITH VETERANS, LENDERS, BUILDERS OR SERVICE ORGANIZATIONS.

Question 15. THERE APPEARS TO BE UNANIMITY OF OPINION THAT THE PROPOSAL TO PAY GUARANTEES IN ALL CASES OF FORECLOSURE ON VA GUARANTEED MORTGAGES IS ONE THAT WOULD BE INAPPROPRIATE; HOWEVER, IT APPEARS THAT IT IS EQUALLY INAPPROPRIATE TO ACQUIRE PROPERTIES IN NEARLY ALL CASES OF FORECLOSURE AS THE VA DOES UNDER CURRENT PRACTICE.

IN A RECENT DRAFT REPORT BY THE CONGRESSIONAL BUDGET OFFICE ENTITLED "THE FINANCIAL CONDITION OF THE LOAN GUARANTY REVOLVING FUND: CURRENT STATUS AND FUTURE PROSPECTS", CBO ESTIMATES THAT THE NUMBER OF PROPERTY ACQUISITIONS IN FISCAL YEAR 1985 WOULD BE DECREASED BY FROM 5 TO 15 PERCENT AND $70 TO $100 MILLION WOULD BE SAVED WERE THE VA TO IMPROVE THE MANNER IN WHICH IT DETERMINES THE MOST ADVANTAGEOUS COURSE OF ACTION TO BE MADE BY THE VA IN EACH FORECLOSURE CASE. SPECIFICALLY, THE CBO REPORT SUGGESTS THE ADDITION OF A NUMBER OF COST FACTORS NOT NOW INCLUDED IN THE VA'S CALCULATION OF THE NET COST OF A PROPERTY ACQUISITION.

PLEASE COMMENT SPECIFICALLY ON THE FOLLOWING CBO SUGGESTIONS.

CBO SUGGESTS THAT THE VA COULD IMPROVE ITS ESTIMATES.

Answer 15.

THE CBO SUGGESTION FOR IMPROVING ESTIMATES OF PROPERTY ACQUISITIONS IS BASED ON INCLUDING ADDITIONAL COST FACTORS IN VA'S CALCULATION OF THE "UPSET PRICE." VA HAS NEVER INCLUDED THE SUGGESTED ADMINISTRATIVE AND INTEREST COSTS IN DETERMINING THE AMOUNT TO BE CREDITED TO THE INDEBTEDNESS (UPSET PRICE) BECAUSE THE DIFFERENCE BETWEEN THE UPSET PRICE AND THE TOTAL INDEBTEDNESS IS THE AMOUNT OF CLAIM THAT VA WILL HAVE TO PAY UNDER ITS GUARANTY. THE AMOUNT OF CLAIM THEN BECOMES THE AMOUNT OF INDEBTEDNESS ESTABLISHED AGAINST THE VETERAN BORROWER. VA DID NOT CONSIDER IT REASONABLE THAT THE VETERAN'S DEBT BE INCREASED BY THESE CHARGES.

WE ARE PRESENTLY WORKING WITH OMB, HUD AND FARMERS HOME TO DETERMINE A CONSISTENT METHOD FOR THESE AGENCIES TO USE IN DETERMINING NET VALUE OF A PROPERTY.

Question 16. DO YOU BELIEVE THAT THOSE VETERANS WHO WOULD QUALIFY FOR ASSISTANCE UNDER THE PROGRAM PROPOSED BY S. 1922 ARE, IN MOST CASES, THE SAME VETERANS WHO THE VA IS NOW ABLE TO ASSIST THROUGH REFUNDS, AND ASSISTANCE AFTER FORECLOSURE AND VA PURCHASE OF FORECLOSED PROPERTY?

Answer 16. IN GENERAL, THOSE VETERANS WHO WOULD QUALIFY FOR ASSISTANCE UNDER S. 1922 WOULD BE THE SAME VETERAN BORROWERS WHO VA CAN NOW ASSIST THROUGH REFUNDING OR RESALE AFTER FORECLOSURE.

Question 17. IN LIGHT OF THE SERIOUS FINANCIAL DIFFICULTIES THAT WOULD BE EXPERIENCED BY THOSE VETERANS WHO WOULD QUALIFY FOR ASSISTANCE UNDER S. 1922, DO YOU BELIEVE THAT THE PROJECTION OF A 40 PERCENT DEFAULT RATE ON ASSISTANCE UNDER THAT PROGRAM IS A REALISTIC ONE?

Answer 17. BASED ON OUR EXPERIENCE WITH DEFAULTED LOANS THAT WERE REFUNDED, WE BELIEVE THAT A 40 PERCENT DEFAULT RATE FOR VETERANS QUALIFYING FOR ASSISTANCE UNDER S. 1922 IS REALISTIC.

RESPONSE OF THE VETERANS' ADMINISTRATION TO WRITTEN QUESTIONS SUBMITTED BY HON. DENNIS DECONCINI, A U.S. SENATOR FROM THE STATE OF ARIZONA

Question 1. HOW MANY LIVING AMERICAN INDIAN VETERANS DO WE HAVE?

Answer 1. VA DATA ON THE RACIAL AND ETHNIC COMPOSITION OF THE VETERAN POPULATION IS BASED ON CENSUS DATA. ACCORDING TO THE 1970 CENSUS, THERE WERE 61,791 AMERICAN INDIAN VETERANS, WHICH WAS .2% OF THE TOTAL VETERAN POPULATION. THE RACIAL AND ETHNIC BREAKDOWN OF THE VETERAN POPULATION IN THE 1980 CENSUS WILL NOT BE AVAILABLE UNTIL JUNE 1984.

Question 2. CAN THIS TOTAL BE BROKEN OUT BY STATE, BY TRIBE AND BY RESERVATION?

Answer 2. VA RECEIVES AND MAINTAINS RACIAL AND ETHNIC DATA ON THE VETERAN POPULATION BY STATE ONLY; VA HAS NO DATA ON AMERICAN INDIAN VETERANS BY TRIBE OR ON HOW MANY INDIAN VETERANS LIVE ON RESERVATIONS. SEE TWO ATTACHED TABLES, PERCENTAGE DISTRIBUTION OF VETERAN POPULATION, AND VETERAN POPULATION.

PERCENTAGE DISTRIBUTION OF VETERAN POPULATION (6/30/70), BY RACE OR SPANISH ORIGIN, BY STATE

State	TOTAL (A)	White (B)	Negro (C)	Spanish American (D)	American Indian (E)	Oriental (F)	Other (G)
U.S.-STATE TOTAL	100.0	89.0	7.2	3.0	.2	.5	.2
Alabama	100.0	85.8	13.8	0.4	*	*	*
Alaska	100.0	85.9	1.6	1.4	3.3	.6	7.2
Arizona	100.0	81.8	1.9	13.5	2.3	.3	.2
Arkansas	100.0	90.9	8.4	.5	.1	.1	.1
California	100.0	81.4	5.5	10.4	.3	1.8	.6
Colorado	100.0	87.4	2.4	9.5	.2	.3	.2
Connecticut	100.0	94.9	3.8	1.1	*	.1	.1
Delaware	100.0	89.5	9.5	.7	.1	.1	.1
District of Columbia	100.0	32.2	65.5	1.5	.1	.4	.3
Florida	100.0	88.6	8.0	3.1	.1	.1	.1
Georgia	100.0	86.0	13.2	.6	*	.1	.1
Hawaii	100.0	35.4	.6	2.7	.2	48.3	12.8
Idaho	100.0	97.7	.1	1.5	.4	.2	.1
Illinois	100.0	88.6	9.3	1.6	.1	.2	.2
Indian	100.0	93.8	5.2	.9	*	.1	.1
Iowa	100.0	98.5	.9	.5	.1	*	.1
Kansas	100.0	94.4	3.5	1.7	.2	.1	.1
Kentucky	100.0	94.1	5.6	.3	*	*	*
Louisiana	100.0	81.0	17.0	1.7	.1	.1	.1
Maine	100.0	99.5	.1	.2	.1	.1	*
Maryland	100.0	85.9	12.8	.9	.1	.2	.1
Massachusetts	100.0	97.1	2.0	.6	*	.2	.1
Michigan	100.0	89.8	9.0	.9	.1	.1	.1
Minnesota	100.0	98.1	.8	.5	.4	.1	.1
Mississippi	100.0	82.6	16.9	.4	.1	*	*
Missouri	100.0	91.5	7.4	.8	.1	.1	.1
Montana	100.0	96.3	.1	.9	2.5	.1	.1
Nebraska	100.0	96.5	2.0	1.0	.3	.1	.1
Nevada	100.0	91.2	3.1	3.9	1.1	.4	.3
New Hampshire	100.0	98.9	.2	.9	*	.1	*
New Jersey	100.0	91.8	7.4	.6	*	.1	.1
New Mexico	100.0	61.6	1.1	33.7	3.2	.1	.3
New York	100.0	88.9	8.3	2.2	.1	.3	.2
North Carolina	100.0	87.3	11.9	.3	.4	*	.1
North Dakota	100.0	98.0	.1	.2	1.5	.1	.1
Ohio	100.0	91.9	7.3	.6	*	.1	.1
Oklahoma	100.0	91.2	4.2	1.1	3.2	.1	.2
Oregon	100.0	96.8	.9	1.2	.4	.4	.2
Pennsylvania	100.0	92.9	6.8	.1	*	.1	.1
Rhode Island	100.0	97.3	1.8	.5	.1	.2	.1
South Carolina	100.0	84.7	15.0	.3	*	*	*
South Dakota	100.0	96.0	.1	.4	3.4	*	.1
Tennessee	100.0	89.8	9.8	.3	*	.1	*
Texas	100.0	80.3	8.2	11.1	.1	.1	.2
Utah	100.0	95.5	.4	3.2	.5	.3	.1
Vermont	100.0	99.0	.1	.7	*	.1	.1
Virginia	100.0	86.9	12.0	.8	.1	.1	.1
Washington	100.0	95.4	1.7	1.4	.6	.7	.2
West Virginia	100.0	96.7	2.9	.4	*	*	*
Wisconsin	100.0	97.0	1.9	.6	.3	.1	.1
Wyoming	100.0	94.7	.4	3.7	.8	.2	.2

*Less than 0.05%

VETERAN POPULATION (6/30/70), BY RACE AND SPANISH ORIGIN, BY STATE

State	TOTAL (A)	White 1/ (B)	Negro 1/ (C)	Spanish American (D)	American Indian (E)	Oriental (F)	Other (G)
U.S.-STATE TOTAL	27,453,073	24,421,633	1,968,976	813,358	61,791	127,790	59,525
Alabama	401,160	343,692	55,521	1,484	161	147	155
Alaska	38,374	32,978	624	533	1,247	229	2,763
Arizona	243,971	199,855	4,577	32,863	5,666	680	559
Arkansas	234,223	213,065	19,621	1,077	191	145	124
California	2,974,461	2,420,477	163,649	310,236	9,065	52,812	18,222
Colorado	312,555	273,274	7,347	29,693	724	780	737
Connecticut	443,310	420,465	16,836	5,009	138	419	443
Delaware	75,648	67,733	7,200	514	38	76	87
District of Columbia	102,408	33,058	67,118	1,516	62	363	291
Florida	953,018	844,887	76,404	29,734	455	865	673
Georgia	557,514	479,568	73,805	3,401	157	289	294
Hawaii	87,580	31,092	494	2,382	151	42,279	11,182
Idaho	91,823	89,734	108	1,341	365	164	111
Illinois	1,505,951	1,334,582	140,611	24,698	755	3,024	2,281
Indiana	688,684	645,867	35,881	5,992	228	331	385
Iowa	360,688	355,337	3,126	1,695	174	153	203
Kansas	301,029	284,263	10,417	5,087	622	231	409
Kentucky	381,949	358,999	21,412	1,184	87	120	147
Louisiana	422,779	342,879	71,867	7,314	294	204	221
Maine	136,720	135,845	162	479	128	62	44
Maryland	558,648	480,224	71,317	5,195	290	1,045	577
Massachusetts	836,018	812,464	16,623	4,682	266	1,315	668
Michigan	1,154,642	1,035,786	104,347	10,738	1,258	1,103	1,410
Minnesota	514,022	504,651	3,898	2,467	2,034	560	412
Mississippi	231,831	191,538	39,093	881	160	101	58
Missouri	645,661	591,939	47,491	4,907	370	376	452
Montana	96,599	92,979	125	879	2,412	93	111
Nebraska	188,895	182,387	3,733	1,927	529	166	153
Nevada	82,323	75,166	2,508	3,235	867	312	235
New Hampshire	109,747	108,503	170	944	27	54	49
New Jersey	1,046,176	959,769	77,491	6,277	244	1,109	1,286
New Mexico	129,346	79,738	1,462	43,552	4,140	103	351
New York	2,449,272	2,180,927	202,065	53,149	1,480	6,749	4,902
North Carolina	579,882	506,463	68,778	1,914	2,261	181	285
North Dakota	65,915	64,697	35	112	977	33	61
Ohio	1,468,049	1,350,336	106,395	8,955	454	934	975
Oklahoma	355,572	324,517	14,980	3,911	11,192	305	667
Oregon	322,362	312,068	2,949	3,933	1,380	1,380	652
Pennsylvania	1,712,296	1,591,318	115,803	2,055	411	1,305	1,404
Rhode Island	142,420	138,713	2,597	655	86	261	108
South Carolina	294,953	249,445	44,355	885	86	94	88
South Dakota	79,605	76,401	96	279	2,729	33	67
Tennessee	486,526	436,660	47,744	1,606	125	221	170
Texas	1,450,833	1,165,424	119,380	161,478	1,007	909	2,635
Utah	134,708	128,634	549	4,311	648	379	187
Vermont	57,038	56,522	52	376	20	30	38
Virginia	598,543	520,386	72,041	4,669	277	795	375
Washington	515,921	491,968	8,679	7,171	3,135	3,803	1,165
West Virginia	228,831	221,183	6,550	892	43	88	75
Wisconsin	555,298	538,372	10,694	3,332	1,785	608	507
Wyoming	47,296	44,805	196	1,759	390	75	71

1/ Spanish Americans have been subtracted out of white and negro races, based on Table 49 of 1970 Census Report PC(1)C.

SOURCE: VA Controller (042A1)

Question 3. HOW MANY RESERVATION INDIANS HAVE APPLIED FOR VA-GUARANTEED HOME MORTGAGE LOANS OVER THE PAST FIVE YEARS? HOW MANY OF THOSE LOANS HAVE BEEN APPROVED? HOW MANY HAVE BEEN DENIED, AND WHAT WERE THE REASONS FOR DENIAL? HOW MANY LOAN APPLICATIONS ARE PENDING? FINALLY, HOW MANY DEFAULTS HAVE THERE BEEN ON VA GUARANTEED LOANS MADE TO INDIANS RESIDING ON RESERVATIONS?

Answer 3. OVER THE PAST FIVE YEARS 6,463 AMERICAN INDIANS APPLIED FOR VA GUARANTEED HOME LOANS, WHICH IS .5% OF ALL LOAN APPLICATIONS RECEIVED BY VA DURING THIS PERIOD, AND 5,812 LOANS WERE GUARANTEED, WHICH IS .5% OF ALL VA LOANS APPROVED. THEREFORE DURING THE PERIOD 651 AMERICAN INDIAN LOAN APPLICATIONS WERE DENIED BY VA OR WITHDRAWN BY THE VETERAN. THIS 10 PERCENT RATE COMPARES FAVORABLY TO A TOTAL NATIONWIDE RATE OF 11.4 PERCENT FOR ALL VETERAN APPLICANTS. VA DENIES LOAN APPLICATIONS FOR TWO STATUTORY REASONS, THE VETERAN'S CREDIT HISTORY DOES NOT INDICATE THAT HE OR SHE IS A SATISFACTORY CREDIT RISK, AND/OR THE VETERAN DOES NOT HAVE SUFFICIENT INCOME TO MEET THE LOAN PAYMENTS, MAINTAIN THE PROPERTY IN A GOOD STATE OF REPAIR, PAY HOUSING RELATED EXPENSES AND OBLIGATIONS, AND HAVE ENOUGH REMAINING FOR FAMILY SUPPORT. VA DOES NOT HAVE RACIAL AND ETHNIC DATA ON LOAN APPLICATIONS PENDING NOR LOANS IN DEFAULT. AS PREVIOUSLY STATED, VA HAS NO DATA ON AMERICAN INDIAN VETERANS BY TRIBE OR LIVING ON RESERVATIONS.

Question 4. IN THE CASE OF DEFAULT ON MOBILE HOME LOANS, IS THE VA AWARE OF ANY PROBLEMS WITH REPOSSESSIONS, OR IS REPOSSESSION SOLELY THE PROBLEM OF THE LENDER? IF REPOSSESSION HAS PROVED TO BE A PROBLEM, CAN YOU PROVIDE ME WITH SPECIFIC DETAILS?

Answer 4. WHEN A VA GUARANTEED MOBILE HOME LOAN GOES INTO INSOLUBLE DEFAULT, THE LENDER REPOSSESSES AND SELLS THE SECURITY, AT OR ABOVE A MINIMUM PRICE SPECIFIED BY VA. THE LENDER MAY THEN FILE A CLAIM WITH VA FOR ANY ADDITIONAL LOSS, UP TO THE GUARANTY AMOUNT. MOBILE HOME REPOSSESSIONS HAVE NOT PRESENTED ANY UNUSUAL PROBLEMS, TO THE BEST OF OUR KNOWLEDGE.

Question 5. HOW MANY RESERVATION INDIANS HAVE APPLIED FOR VA-GUARANTEED LOANS FOR MOBILE HOMES OVER THE PAST FIVE YEARS? HOW MANY OF THESE LOAN APPLICATIONS HAVE BEEN APPROVED? HOW MANY HAVE BEEN DENIED, AND WHAT WERE THE REASONS FOR DENIAL? HOW MANY LOAN APPLICATIONS ARE PENDING? FINALLY, HOW MANY DEFAULTS HAVE THERE BEEN ON VA-GUARANTEED MOBILE HOME LOANS MADE TO INDIANS RESIDING ON RESERVATIONS.

Answer 5. OVER THE PAST FIVE YEARS VA GUARANTEED 328 MANUFACTURED HOME LOANS FOR AMERICAN INDIANS, WHICH IS .7% OF ALL MANUFACTURED HOME LOANS APPROVED. VA DOES NOT SEPARATE

MANUFACTURED HOME LOAN APPLICATION DATA INTO RACIAL AND ETHNIC CATEGORIES. THE REASONS FOR DENYING MANUFACTURED HOME LOANS ARE THE SAME AS THOSE FOR LOANS ON CONVENTIONALLY BUILT HOUSING. VA DOES NOT HAVE RACIAL AND ETHNIC DATA ON MANUFACTURED HOME LOAN APPLICATIONS PENDING NOR ON THOSE IN DEFAULT. AS PREVIOUSLY STATED, VA HAS NO DATA ON AMERICAN INDIAN VETERANS BY TRIBE OR LIVING ON RESERVATIONS.

Question 6. PLEASE PROVIDE AVAILABLE DATA ON THE AVERAGE QUALIFYING INCOME OF VETERANS APPROVED-FOR CONVENTIONAL HOME LOAN GUARANTEES AND MOBILE HOME LOAN GUARANTEES.

Answer 6. TO QUALIFY FOR A VA GUARANTEED LOAN A VETERAN MUST HAVE SUFFICIENT INCOME TO MEET THE PROPOSED MONTHLY HOUSING EXPENSES AND ESTABLISHED FAMILY EXPENSES AND OBLIGATIONS. SINCE BOTH PROJECTED HOUSING AND ESTABLISHED FAMILY EXPENSES VARY FROM VETERAN TO VETERAN, QUALIFYING INCOME MAY VARY GREATLY FROM CASE TO CASE. VA MAINTAINS AVERAGE FINANCIAL DATA ON VETERANS WHO OBTAIN GUARANTEED LOANS. THE AVERAGE ANNUAL INCOME FOR VETERANS SECURING LOANS FOR CONVENTIONALLY BUILT HOUSING IN 1982 WAS $32,600 AND IN 1983 WAS $32,100. THE AVERAGE ANNUAL INCOME FOR VETERANS SECURING MANUFACTURED HOME LOANS IN 1982 WAS $20,500 AND IN 1983 WAS $19,800.

Question 7. IN A LETTER ADDRESSED TO THE HONORABLE BILL RICHARDSON DATED NOVEMBER 10, 1983, THE VA SUGGESTS THAT THE NAVAJO NATION ESTABLISH A DIRECT LENDING PROGRAM FOR ITS MEMBERS UNDER WHICH THE TRIBE WOULD CREATE A REVOLVING FUND FROM WHICH IT COULD MAKE LOANS AND THE VA WOULD THEN ISSUE THE REGULAR VA GUARANTY TO THE TRIBAL COUNCIL BASED ON THE VA'S NORMAL PRIOR APPROVAL PROCESS FOR LOANS MADE TO ELIGIBLE VETERANS.

DOES THE VA KNOW HOW MANY TRIBES WOULD HAVE THE FINANCIAL RESOURCES TO ESTABLISH A REVOLVING FUND FOR THIS PURPOSE? WOULD THE VA BE WILLING TO PARTICIPATE IN THE ESTABLISHMENT OF REVOLVING FUNDS WITH INTERESTED INDIAN TRIBES ON A MATCHING BASIS FOR A SHORT PERIOD OF TIME?

Answer 7. THE VA HAS NO KNOWLEDGE OF THE FINANCIAL RESOURCES OF THE VARIOUS INDIAN TRIBES OR WHETHER THE TRIBES WOULD BE ABLE TO ESTABLISH A REVOLVING FUND FOR HOUSING FINANCE PURPOSES. THE VA IS NOT AUTHORIZED TO CONTRIBUTE FUNDS, ON A MATCHING BASIS OR OTHERWISE, TOWARD THE ESTABLISHMENT OF SUCH REVOLVING FUNDS.

Chairman **Simpson**. The next witness, Frank Sato, Inspector General of the Veterans' Administration.

And I want to just say there will be additional written questions from me and from Senator Cranston and other members of the committee.

Nice to have you with us this morning, Frank.

TESTIMONY OF FRANK S. SATO, INSPECTOR GENERAL, VETERANS' ADMINISTRATION

Mr. **Sato**. Thank you, sir. It's a pleasure to be here, Chairman Simpson.

Chairman **Simpson**. Please proceed. I'd like to hear your views.

Mr. **Sato**. Mr. Chairman, I do have a brief statement here which I would like to submit for the record.

I would just briefly like to mention that my comments are primarily related to the work that my staff has done in the loan guaranty area, and specifically as it relates to the issue of acquiring properties and the related costs.

Our concern when this proposal was advanced was that ultimately it would cost the Veterans' Administration additional money and that it could involve requests for supplemental appropriations later. I have advised the Administrator on that point.

Beyond the cost factor we were very concerned about some related issues, such as the viability of the GI loan program if this change in policy would take place. I think some of the concerns have been expressed previously. A related issue concerns how the costs that are associated with this program might be handled, that is, the issue of the liability of the veteran, and how those loans are ultimately dispensed.

There are some other critical issues, I think, that are involved. For example, the IRS currently has a program which considers debts waived during any year as income for that year. Now, I think these are all things that get intertwined in this issue, but the basic issue is that this policy would ultimately cost the Veterans' Administration additional money. And I think this is the key point that we were trying to make in the audit report that we released previously and summarized briefly in our semiannual report to the Congress as of September 30 of last year.

I would be happy to answer any further questions that you might have regarding that report.

Chairman **Simpson**. Am I correct in assuming that in your report of the audit entitled "Department of Veterans Benefits Acquisition of Foreclosed Properties with VA Guaranteed Loans" you were concerned only with comparing the end results of the VA's current policy of acquiring 95 percent of foreclosed VA guaranteed mortgages with the end result of a policy change that would require the VA to pay guarantees in each and every case of foreclosure?

Mr. **Sato**. Yes, sir.

Chairman **Simpson**. Is that what you were drawing there?

Mr. **Sato**. Yes, sir.

Chairman **Simpson**. In evaluating this cost to the Government that results from the purchase of properties by the VA, your report included costs such as the cost of administration, cost of borrowing money for property acquisition, the cost of borrowing money to maintain property inventory, that are not included in the VA's determination of whether to bid on a property or to pay the guaranty. Do you believe the VA should include these costs during the determination?

Mr. SATO. Yes. However, there is difficulty in computing that cost exactly. That is, there is of course the cost of acquiring the property, and the cost of maintaining the properties in the inventory. We have accounted for those costs in our reports. But I have to admit that it's very difficult to compute a precise cost element for that factor. The current agency practice, as you say, Mr. Chairman, does not include the cost of interest and the cost of administering the program.

Chairman SIMPSON. I think even imprecisely it still should be, an attempt should be made to just deal with it in the area of marketplace reality.

Mr. SATO. Yes, sir. In fact, in the formal statement that I have submitted for this hearing, Mr. Chairman, I have mentioned the fact that some increases in economies might be achieved if that minimum specified price were to consider administrative and interest costs.

In the review that we made, our conservative estimate, that is conservative for costing purposes in arriving at the savings that we computed, we used roughly $5,000 as a cost of interest and administrative expense—roughly $4,600 for interest and about $400 for administrative costs. That review considered properties which were in inventory for an average of about 12 months.

Many of the properties, of course, are disposed of earlier than that, but there are some troubled properties that are maintained for up to 2½ years or so.

Chairman SIMPSON. Again, so I have it, in these 9,000 properties which were acquired in the first 7 months, we have this figure of a "average claim" of $4,309. You just touched on that. Your draft report or the draft report of CBO puts this net loss at $9,370.

Were you commenting on the difference? Because I would wonder what is the difference in the average claim paid as used in the summary and net loss as used in the CBO draft report? If you could explain that a little better for me I'd appreciate it.

Mr. SATO. I think the $4,300 that you refer to, Mr. Chairman, is the guaranty payable where the properties are acquired by the VA. That is, the difference between the amount owed on the property and the amount that the property is ultimately sold for. That amount is the guaranty paid, $4,300.

Over and beyond that there is a cost associated with maintaining and selling the property which is roughly $5,000. And that is where the $9,300 that you refer to comes from.

I have not seen that CBO report but I think this is the distinction between those two figures.

Now, over and beyond that which VA calculates there are interest and administrative costs which are not currently included in arriving at what is termed the bid price or the minimum specified price in the VA's acquisition practice.

Chairman SIMPSON. In conducting your audit, did you consider the frequency that VA financing is used to dispose of properties and do you believe the VA could save money by selling more of these properties for cash?

Mr. SATO. We did not look at that aspect of this program, Mr. Chairman.

Chairman SIMPSON. What do you think about that?

Mr. SATO. I hadn't really thought about it. But offhand, I would say that since the Government wants to really get out of those functions that it believes the private sector could do better, I would think that we would not want to be in the position of being a real estate broker or a salesman. That would be my offhand impression.

Chairman SIMPSON. Yes, it would be interesting, you know, to consider.

But in the VA testimony a number of innovations to improve productivity are cited. One is to increase lender participation in a program which allows the lender to underwrite the VA guaranteed loans on an automatic basis without the VA reviewing the income and credit of the veteran. I would think that assuredly would speed up the loan process but would think that there would have to be a periodic need for review of that process to insure that the lenders are checking adequately on credit worthiness of the veteran applicant.

Has your office ever conducted such a review? If you have, could you share the results with us? If not, would you be amenable to initiating an effort to determine how many of these automatically processed loans actually end up in default?

Mr. SATO. First of all, Mr. Chairman, we have not looked at that area as a audit project, per se. However, we are currently involved in an investigation with the Inspector General's Office of the Department of Housing and Urban Development.

One of the problems that we see from a vulnerability aspect is that, where you rely on third parties on a fee basis, you do sacrifice some control over how the program is run. One of the investigations that we are currently undertaking involves appraisal values that are being set improperly, allegedly, and second, in the processing of the loans.

And so, while that is an option, there are some problems also associated with it.

Chairman SIMPSON. I thank you very much. And I have further questions or questions from members.

Thank you very much, Frank, for being here.

Mr. SATO. Thank you, Mr. Chairman.

[The prepared statement of Frank S. Sato, Inspector General, Veterans' Administration, and his response to written questions submitted by Hon. Alan K. Simpson, chairman of the Senate Committee on Veterans' Affairs, follow:]

PREPARED STATEMENT OF FRANK S. SATO, INSPECTOR GENERAL, VETERANS' ADMINISTRATION

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS FRANK SATO, INSPECTOR GENERAL FOR THE VETERANS ADMINISTRATION. MY COMMENTS WILL BE RELATED TO THE RESULTS OF AN AUDIT WE PERFORMED APPLICABLE TO THE VA'S PRACTICE OF ACQUIRING PROPERTIES UNDER THE LOAN GUARANTY PROGRAM.

IN SEPTEMBER 1983, MY OFFICE ISSUED A REPORT TITLED "DEPARTMENT OF VETERANS BENEFITS ACQUISITION OF FORECLOSED PROPERTIES WITH VA GUARANTEED LOANS." THE PURPOSE OF THE REVIEW WAS TO DETERMINE THE ECONOMY AND EFFICIENCY OF THE VA'S PRACTICE OF ACQUIRING PROPERTIES INVOLVING DEFAULTED, VA GUARANTEED HOME LOANS. IN GENERAL, THE VA'S POLICY IS TO ACQUIRE THESE PROPERTIES IF BIDS DO NOT MEET A MINIMUM SPECIFIED PRICE.

IN OUR OPINION, THE VA'S PROPERTY ACQUISITION POLICIES AND PROCEDURES ARE GENERALLY COST-EFFECTIVE. THE AVERAGE GUARANTY CLAIM PAID FOR ABOUT 9,000 PROPERTIES DURING THE FIRST SEVEN MONTHS OF FY 1983 WAS ABOUT $4,300 AS OPPOSED TO AN AVERAGE TOTAL LOAN GUARANTY OF $19,000 FOR THE SAME PROPERTIES. AFTER CONSIDERING RELATED PROPERTY MANAGEMENT EXPENSES, INCLUDING MAINTENANCE, TAXES, SALES COMMISSIONS, INTEREST AND MANAGEMENT EXPENSES, WE ESTIMATE THAT THE VA PAID OUT NEARLY $40 MILLION LESS THAN THE TOTAL LOAN GUARANTY THAT MIGHT OTHERWISE HAVE BEEN PAYABLE.

THE VA PRESENTLY ACQUIRES 95 PERCENT OF THE PROPERTIES IT BIDS ON. WHILE WE BELIEVE THE PRESENT VA PROGRAM IS COST-EFFECTIVE, SOME MARGINAL IMPROVEMENTS MIGHT BE REALIZED. FOR EXAMPLE, THE VA MINIMUM SPECIFIED PRICE, OR BID AMOUNT, COULD BE LOWERED BY

INCLUDING ADMINISTRATIVE AND INTEREST COSTS IN THE BID COMPUTATION. THIS COULD LEAD TO GREATER PARTICIPATION BY PRIVATE SECTOR INVESTORS IN THE DEFAULT LOAN ACQUISITION PROGRAM AND LEAD TO GREATER COST-EFFECTIVENESS. HOWEVER, COMPLETE TERMINATION OF VA'S PRACTICE OF ACQUIRING DEFAULTED LOANS WILL, IN OUR JUDGMENT, ULTIMATELY BE MORE COSTLY TO THE VA.

THIS CONCLUDES MY STATEMENT. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS REGARDING OUR REVIEW AND CONCLUSION.

RESPONSE OF FRANK S. SATO, INSPECTOR GENERAL, VETERANS' ADMINISTRATION, TO WRITTEN QUESTIONS SUBMITTED BY HON. ALAN K. SIMPSON, CHAIRMAN OF THE SENATE COMMITTEE ON VETERANS' AFFAIRS

Question 1. IN EVALUATING THE COST TO THE GOVERNMENT THAT RESULTS FROM THE PURCHASE OF PROPERTIES BY THE VA, YOUR REPORT INCLUDED COSTS SUCH AS THE COST FOR ADMINISTRATION, THE COST OF BORROWING MONEY FOR PROPERTY ACQUISITIONS AND THE COST OF BORROWING MONEY TO MAINTAIN PROPERTY INVENTORY -- THAT ARE NOT INCLUDED IN THE VA'S DETERMINATION OF WHETHER TO BID ON A PROPERTY OR TO PAY THE GUARANTY.

DO YOU BELIEVE THE VA SHOULD INCLUDE THESE COSTS DURING THAT DETERMINATION?

Answer 1. WE BELIEVE THAT THE PRINCIPLE OF INCLUDING ALL COSTS TO THE GOVERNMENT IS A SOUND ONE. HOWEVER, I MUST POINT OUT THAT IT IS DIFFICULT TO ESTIMATE ACQUISITION INTEREST COSTS. WHILE WE BELIEVE THESE COSTS SHOULD BE CONSIDERED, WE APPRECIATE THE DIFFICULTIES INHERENT IN MAKING ACCURATE ESTIMATES.

Question 2. IN THE VA'S TESTIMONY, A NUMBER OF "INNOVATIONS" TO IMPROVE PRODUCTIVITY ARE CITED. ONE IS TO INCREASE LENDER PARTICIPATION IN A PROGRAM WHICH ALLOWS LENDERS TO UNDERWRITE VA GUARANTEED LOANS ON AN "AUTOMATIC BASIS" WITHOUT THE VA REVIEWING THE INCOME AND CREDIT OF THE VETERAN.

I WOULD THINK THAT THIS APPROACH WOULD, INDEED, SPEED UP THE LOAN PROCESS, BUT I WOULD THINK THERE WOULD NEED TO BE PERIODIC REVIEWS OF THIS PROCESS TO ENSURE THAT THE LENDERS ARE CHECKING ADEQUATELY THE CREDIT WORTHINESS OF THE VETERAN APPLICANT.

HAS YOUR OFFICE EVER CONDUCTED SUCH A REVIEW? IF SO, COULD YOU PLEASE SHARE THE RESULTS WITH US AND IF NOT, WOULD YOU INITIATE AN EFFORT TO DETERMINE HOW MANY OF THESE AUTOMATICALLY PROCESSED LOANS ENDED IN DEFAULT?

Answer 2. FIRST, I SHOULD MENTION THE INCREASE THAT HAS OCCURRED IN AUTOMATIC LENDER PARTICIPATION IN VA LOAN APPROVALS.

A 1982 GAO REPORT (GAO/AFMD-82-15) NOTED THAT UNDERWRITING FOR ABOUT 22 PERCENT OF VA GUARANTEED LOANS WAS BY AUTOMATIC LENDERS. BY AUGUST 1983, THIS FIGURE HAD INCREASED TO 40 PERCENT AND IT IS OUR UNDERSTANDING THAT OVER 50 PERCENT OF SUCH LOANS ARE CURRENTLY UNDERWRITTEN AUTOMATICALLY.

ALTHOUGH WE HAVE NOT SPECIFICALLY REVIEWED AUTOMATIC LENDERS, WE HAVE DONE SOME WORK IN THE LOAN GUARANTY PROGRAM. OUR WORK HAS INCLUDED REVIEWS OF LOAN GUARANTY CONTROLS AT VA FIELD STATIONS, OVERSIGHT OF AGENCY CONTROL SYSTEMS AS REQUIRED BY OMB CIRCULAR A-123, AND INVESTIGATIVE ACTIVITIES. WE HAVE FOUND NO EVIDENCE OF SYSTEMWIDE PROBLEMS IN THE AUTOMATIC LENDER PROGRAM.

WITH RESPECT TO LOAN DEFAULTS, LOAN GUARANTY SERVICE HAS ADVISED US THAT OF ALL VA GUARANTEED LOANS FORECLOSED IN FISCAL YEAR 1983, ONLY 9 PERCENT WERE UNDERWRITTEN BY AUTOMATIC LENDERS.

Question 3. HAVE THERE BEEN ANY INDICTMENTS WHICH HAVE ARISEN FROM THE ONGOING INVESTIGATIONS WHICH YOU MENTIONED AT THE HEARING?

Answer 3. WE HAVE CLOSED 250 LOAN GUARANTY RELATED CASES SINCE MID-1981. OF THESE, 14 HAVE RESULTED IN EITHER ADMINISTRATIVE OR PROSECUTIVE ACTION. ALTHOUGH NO LENDERS WERE INDICTED DURING THIS PERIOD, TWO HAVE BEEN SUSPENDED FROM PARTICIPATION IN THE LOAN GUARANTY PROGRAM. ONE OF THESE SUSPENSIONS WAS IN APRIL 1981 AND THE OTHER WAS IN MAY 1983.

TWO MAJOR INVESTIGATIONS INVOLVING ALLEGED LENDER IRREGULARITIES ARE IN PROGRESS. SINCE THEY ARE ONGOING INVESTIGATIONS, NO INDICTMENTS HAVE ARISEN AS YET.

Chairman SIMPSON. Next please, Kathleen Shepherd, principal analyst for the Congressional Budget Office, please.

Good morning. How are you?

TESTIMONY OF KATHLEEN W. SHEPHERD, PRINCIPAL ANALYST, CONGRESSIONAL BUDGET OFFICE

Ms. SHEPHERD. Good morning, Mr. Chairman. I'm fine, thank you.

Chairman SIMPSON. Good. Nice to have you with us.

Ms. SHEPHERD. It is my pleasure to appear before the committee today to discuss the operation of the Veterans' Administration's [VA] Loan Guaranty Program and the financial condition of the Loan Guaranty Revolving Fund.

I will restrict my remarks this morning to the requested 5-minute time limit, but I would like to submit my full statement for the record.

The financial prospects of the revolving fund over the next few years are uncertain, because it is not clear under what set of policies the Loan Guaranty Program will be operated. What is clear is that the ongoing effects of the recent recession on the fund have been severe.

Foreclosures of VA-guaranteed home loans reached a historical high in fiscal year 1983 and are anticipated to be even higher during 1984. Consequently, a deficit of at least $125 million is expected for the revolving fund in 1984 if no changes are made in the operating procedures of the program. Additional deficits totaling nearly $1 billion can be expected for 1985 through 1989 under present policies.

With the release of his 1985 budget, the President announced a series of administrative changes in the operation of the loan program intended to address this situation. CBO has estimated the administration's proposals would eliminate the deficits anticipated for 1984 and 1985 and would reduce the deficits in 1986 through 1989 by more than $280 million.

Over the last 6 months, CBO has also been studying the Loan Guaranty Program, and our analysis indicates that an alternative set of changes would be less disruptive to program operations than the President's proposals and could result in an even greater reduction in the future deficits and outlays of the revolving fund.

These alternative options, which are discussed in greater depth in a forthcoming CBO study, would prolong the solvency of the revolving fund to 1987. The changes proposed by the administration are estimated to reduce the Fund's outlays by about $500 million between March 1, 1984 and the end of fiscal year 1989. In contrast, the options examined in the CBO study would reduce fund outlays over the same period by $635 million.

The principal changes in the President's 1985 budget request include the following:

Eliminating property acquisitions at foreclosure sales involving VA-guaranteed loans. The agency would instead pay the amount of the guarantee.

No longer offering agency financing of the resale of properties acquired from foreclosure.

Discontinuing repurchase agreements in connection with the sale of vendee loans, that is, those loans established to finance the sale of acquired property.

And finally, stopping the practice of acquiring certain loans in default before foreclosure in order to extend special forbearance to veteran mortgagors.

CBO's alternative options reflect a different approach to many of these same issues. Our analysis indicates that the major inefficiency in the program's current procedures is that all loans under foreclosure and all real property available for sale by the agency are handled in the same manner. We have concluded that the financial position of the revolving fund would be significantly improved if the VA determined its course of action on these transactions on an improved case-by-case basis.

CBO examined a sample of 65 recent cases in which the VA acquired a property as the result of a foreclosure. The circumstances surrounding both the foreclosed loans and the properties that were acquired varied enormously. The differences were so great that no single set of procedures for satisfying the guaranty or for disposing of the property would have been the best from the agency's perspective in all cases.

Where the administration's proposals would substitute one set of procedures to be followed in all cases for another, CBO's options would focus on making the best economic choice between the alternatives on each case, taking into consideration the circumstances involved. For instance, when a VA-guaranteed loan is foreclosed, the agency could improve its comparison of the financial consequences of paying the guaranty or of acquiring and reselling the securing property by including all the costs of each alternative, whether those costs are paid by the revolving fund or not. The VA does not now include administrative or interest costs, because they are not charged to the fund.

To sell those properties that are acquired, the VA need not always offer agency financing. Our analysis indicates that a significant number of properties could probably be sold for cash without a large reduction in the sale price.

Since the VA vendee loan program has historically exhibited a default rate far in excess of the guaranteed loan program, the use of vendee financing should probably be reserved for those cases in which the property is so undesirable that private lenders would be unwilling to finance its sale. On such cases, however, agency financing would probably bring a greater net return than a cash sale.

By 1988, however, deficits should be expected in the revolving fund, no matter how efficiently the program is operated since it is the nature of the program to operate at a deficit.

This concludes my statement, Mr. Chairman. I'll be pleased to respond to any questions you may have.

Chairman Simpson. Thank you very much. And I do want to thank you, Ms. Shepherd, for the Congressional Budget Office report, a very enlightening and informative draft report for us to chew on on the financial status of this program, the revolving fund. And I understand that the report will soon be completed. We are very much looking forward to that.

Would you please comment on this difference between CBO's estimate of $9,370 for the average net loss on the VA acquired properties and this average claim figure of $4,309 reported in the VA Inspector General's report?

Ms. **Shepherd**. The average claim figure cited in the Inspector General's report—$4,309—represents the average amount paid by the VA to acquire a property, over and above the amount of the successful bid at the foreclosure sale. This claim amount is only one of the items that contribute to the $9,371 average net loss experienced by the VA on the acquisition and resale of properties in 1983.

Chairman **Simpson**. Yes. Several witnesses will testify today that if the VA were forced to pay guarantees in all foreclosure cases, lenders would choose not to participate as actively in the VA Home Loan program. Apparently some lenders are concerned by the prospect of having to dispose of properties that would otherwise be handled by the VA after purchase.

Do you know if the VA has established criteria for selling foreclosed properties for cash before they refinance them at VA rates?

Ms. **Shepherd**. To my knowledge, Senator, they have not.

[Subsequently, the Congressional Budget Office submitted the following information:]

The degree to which lenders would be affected by this policy change would depend on whether or not the VA attempted to recover payments made under the guaranty to the extent that they exceed the lender's actual net loss on the loan after the property has been resold. For example, assume that the VA pays a lender $27,500 at the time of foreclosure on a VA-guaranteed loan. After the lender sells the property, however, his net loss, excluding the guaranty payment, might only be $15,000. The question then arises: Will the VA attempt to collect the $12,500 excess payment under the guaranty?

The VA currently maintains that it does not have legal authority to recover these funds. If this is the case, a policy of always paying the guaranty on foreclosures would result in a substantial windfall to lenders. Since the VA's net loss is estimated to be less than the amount payable under the guaranty in about 90 percent of all foreclosure cases, lenders would be expected to make a profit on the same proportion of such foreclosures. Under these circumstances, lenders would have no reason to reduce their participation in the VA loan program.

On the other hand, if the VA does attempt to recover these excess guaranty payments, doing so could create difficulties for some lenders. Most affected would be small lenders who are not accustomed to handling real property on a regular basis. Such lenders might become reluctant to make VA loans. Larger lending institutions usually maintain a property management staff. If required to expand that staff to handle an influx of properties from VA foreclosures, however, they might begin to treat VA loans more like conventional loans—that is, by requiring downpayments or by applying more rigorous credit standards.

Because the Administration maintains that the VA will not attempt to collect excess guaranty payments, CBO budget projections assume that this will be the case. Therefore, we are not projecting a decline in lender participation in the VA home-loan program.

Chairman **Simpson**. In your examination of this program did you encounter any evidence that would suggest that the loan guaranty maximums of $27,500 and $20,000 for manufactured housing are too low and that a significant number of veterans are currently unable to find willing lenders as a result of that?

Ms. **Shepherd**. Under the current administration policy of acquiring properties when a VA-guaranteed loan is foreclosed, the guaranty becomes, in effect, becomes a 100-percent guaranty, because the lender's losses are fully covered when the VA acquires the property. Under these circumstances the $27,500 guaranteed ceiling is certainly sufficient.

If the administration's policy were changed to paying the guaranty instead of acquiring properties, the situation could be quite different, but I haven't done an analysis to determine what the effects of such a change might be on the adequacy of the current guaranty maximum.

Chairman SIMPSON. Well, when you cost out this proposed increase to the maximum will you be taking into consideration whether there are numbers of veterans unable to find a number due to a low maximum?

Ms. SHEPHERD. Veterans, do not appear to be experiencing any difficulty in obtaining mortgages now as the result of the maximum guaranty ceiling. If S. 2265 were enacted, the effect of the bill would depend on whether the current policy of acquiring properties in virtually all cases remains in effect or whether the policy is changed and the VA begins paying the guaranty in all cases. The effect would be quite different under those two policies.

Chairman SIMPSON. Are you concerned about the reliability of fee-basis appraisals for VA-purchased properties? And if so, do you have any suggestions for monitoring the program with more success?

Ms. SHEPHERD. In my analysis, I have had difficulty in attempting to assess the accuracy of VA appraisals. The VA seems to be experiencing some difficulty in selling the properties for their appraised values without subsidized financing in the form of vendee loans.

If the agency cannot sell a property at the appraised value then the question arises as to whether the appraisal was correct, since it should represent the amount for which the property could be sold. But I was unable to compare VA and non-VA appraisals to determine, on any quantitative basis, the degree to which VA appraisals are or are not accurate.

Chairman SIMPSON. But you think there are some discrepancies there with the fee-based appraisal that we might want to get into?

Ms. SHEPHERD. I think there are certainly some questions. And possibly the area should be looked into by the VA. I think it would require a nationwide analysis, which could probably be performed most efficiently by the VA, since it could be that the problems are more serious in some areas of the country than in others.

Chairman SIMPSON. Yes; I think it deserves our attention. I think it could be just kind of a rote exercise in some cases. And I found so when I practiced law in my other life. So, we'll look into that.

I wanted to ask you just one final question on your projection of a 40-percent default rate on loans under this proposed Foreclosure Relief Act.

In light of the obvious serious financial difficulties experienced by veterans who face that possibility of foreclosure, do you believe this projected 40-percent default rate is a realistic one?

Ms. SHEPHERD. The 40-percent default rate was estimated when I prepared a cost estimate of a similar bill for the House Veterans' Committee. After my study of the loan guaranty program, however, I believe the 40-percent default rate is probably too low.

The 40-percent default rate was based on the default rate experienced by VA on refunded loans. The procedures used by the VA on a refunded loan give the veteran-borrower more time to repay any added indebtedness than is granted under this bill. The 4-year repayment period is quite short. The additions to a veteran's monthly housing costs would be very high in order for him to repay the new loan in the time required. I estimated that a veteran's housing costs would increase by about 30 percent.

And it's very unlikely that a veteran who is just getting back on his feet from a serious financial problem, would be able to absorb this kind of increase in his housing costs.

Chairman SIMPSON. I thank you very much for your help. Your report will be very important to us. Thank you for your testimony.

[The prepared statement of Kathleen W. Shepherd, principal analyst, Congressional Budget Office, follows:]

PREPARED STATEMENT OF KATHLEEN W. SHEPHERD, PRINCIPAL ANALYST, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, it is a pleasure to appear before your Committee today to discuss the operation of the Veterans Administration's (VA) loan guaranty program and the financial condition of the Loan Guaranty Revolving Fund.

The financial prospects of the revolving fund over the next few years are uncertain, Mr. Chairman, because it is not clear under what set of policies the loan guaranty program will be operated. What is clear is that the ongoing effects of the recent recession on the fund have been severe. Foreclosures of VA-guaranteed home loans reached a historical high in fiscal year 1983 and are anticipated to be even higher during 1984. Consequently, a deficit of at least $125 million is to be expected for the revolving fund in fiscal year 1984 if no changes are made in the operating procedures of the program. Additional deficits totalling nearly $1 billion can be expected for 1985 through 1989 under present policies.

THE OPERATION OF THE LOAN GUARANTY PROGRAM AND THE FINANCIAL STATUS OF THE REVOLVING FUND

Through its loan guaranty program, the VA guarantees residential mortgages for 60 percent of their principal value up to a maximum of $27,500. Through the end of fiscal year 1983, the VA has guaranteed a total of 11.5 million loans with an aggregate value of more than $200 billion.

The program is financed through the Loan Guaranty Revolving Fund, which incurs the costs associated with defaults. Under current practices, when a VA-guaranteed loan is in default and the lender forecloses, the agency almost always offers to purchase the property at a price set by the VA. If the VA acquires the property, the agency then offers it for sale, generally financing the sale with a direct loan known as a "vendee loan." The proceeds from the property sale or from the subsequent sale of the vendee loan are then redeposited in the fund.

In the past, the deficits of the Loan Guaranty Revolving Fund have been financed primarily by transfers from the Direct Loan Revolving Fund. However, because the balance of the direct loan fund has now been depleted by past transfers and the liquidation of the fund's loan assets, the VA does not expect additional transfers to be possible within the foreseeable future. Thus, some steps must soon be taken to avoid the impending insolvency of the loan guaranty fund. There are two possible methods for achieving this goal:

- Changes could be instituted to reduce the future operating costs or increase collections of the fund through improved operating efficiency, or
- A new source of external financing for the fund could be found.

In his 1985 budget request, the President announced a series of administrative changes to be made in the operation of the revolving fund as of March 1, 1984, which would reduce the costs of the fund, but which would also reduce the fund's collections. The CBO reestimate of the Administration's proposals indicates that these changes would reduce 1984-1989 net fund outlays by $500 million--eliminating the deficits anticipated for 1984 and 1985 and reducing the deficits in 1986 through 1989 by more than $280 million. Other alternatives are available, however, that would reduce future deficits still further. None of these changes, however, would keep the fund solvent beyond 1987.

CBO estimates that the Administration's proposals would reduce the outlays of the Loan Guaranty Revolving Fund by about $500 million between March 1, 1984, and the end of fiscal year 1989. The options discussed in a forthcoming CBO study, on the other hand, would reduce fund outlays over the same period by $635 million.

In my remarks today I will first examine the Administration's proposals and alternatives to them, and will then discuss options for financing fund deficits in other ways.

ADMINISTRATION PROPOSALS

The principal changes detailed in the President's fiscal year 1985 budget request include the following:

- The acquisition of property at foreclosure sales involving VA-guaranteed loans would be stopped. The VA would instead pay the lender the amount of the guaranty applicable to the foreclosed loan.
- The VA would no longer offer agency financing on the resale of properties that have been acquired from foreclosures.

In addition, the Administration proposes that vendee loans, that is, direct loans made by the VA to finance the sale of acquired properties, would no longer be sold by the agency with agreements to repurchase them in case of default. Further, guaranteed loans in default could no longer be purchased by VA from the lender in order to grant the veteran-mortgagor special forbearance.

The CBO analysis of the loan guaranty program indicates that the major inefficiency in the program's current operating procedures is that all loans under foreclosure and all real property available for sale by the agency are handled in the same manner. We have concluded that the VA can only maximize its financial position on the transactions of this program if it determines its course of action on a case-by-case basis. The changes proposed by the Administration--while they would result in an outlay savings of about $500 million over the 1984-1989 period--do not correct this basic problem. The Administration's changes would merely substitute one single course of action for another.

The alternative of determining property acquisition and sale decisions on a case-by-case basis as outlined below would reduce 1984-1989 outlays by $165 million more than the Administration's plan.

ALTERNATIVE WAYS OF SATISFYING THE GUARANTY ON FORECLOSED LOANS

We examined a sample of 65 recent cases in which the VA had acquired a property as the result of a foreclosure. Among these cases was one in which the appraised value of the property at the time of foreclosure was less than 80 percent of the amount that the VA paid the lender in order to acquire it. Also, there was a property on which the appraised value was 20 percent higher than the VA's initial cost of acquisition. No single approach--neither acquiring the property nor paying the guaranty--would minimize the cost of satisfying the VA's guaranty on both of these loans.

Paying the guaranty in all cases of foreclosure on VA-guaranteed loans, as proposed by the President, would ultimately cost the revolving fund more than the current policy of always acquiring the property, because historically the average amount payable under the VA guaranty is larger than the average net loss experienced by the agency on the acquisition and resale of a property. The proposed policy reversal would result in a large initial reduction in outlays, however, since amounts payable under the guaranty are considerably less than the initial payment required at the time of foreclosure to acquire a property. The initial outlay reduction would in later years be more than offset by the subsequent elimination of collections that would have resulted from the sale of the properties and related vendee loans. Alternatively, somewhat smaller initial savings could be achieved without the penalty of outyear costs, by making more accurate comparisons of the net financial consequences of the two alternatives on a case-by-case basis.

In the past, the cost comparisons made by the VA have virtually always led it to conclude that it should acquire the property, because a number of the costs incident to property acquisitions were not included in their calculations. Based on our sample of actual acquisition cases, the amounts estimated by VA for the cost of maintaining and reselling properties are considerably below the average amounts expended on these activities historically. Further, the VA does not include administrative costs or the interest cost on the funds required for the initial acquisition, since these are not paid by the revolving fund. Nevertheless, they are costs that must be borne by the government and, as such, should be included.

If these cost elements were added to the agency's calculations, two effects could be expected: the VA would pay the guaranty instead of offering to acquire the property in about 10 percent of all foreclosure cases; and, in those cases in which the VA did offer to acquire, the price specified by the agency to the lender to be bid at the foreclosure sale would be reduced by an average of about 15 percent. The reduction in the bid price would be expected to induce some outside parties to enter competitive bids at the sale. When a third party makes the successful bid in a foreclosure sale on a VA loan, the agency's obligation to the lender decreases.

We have estimated that this relatively minor change in VA procedures could reduce 1984 outlays by about $110 million. From 1985 through 1989, outlays would be further reduced by more than $200 million.

THE SALE OF ACQUIRED PROPERTIES

The Administration's current and proposed approaches to the disposition of real properties acquired from foreclosures demonstrate similar inflexibility. Under current procedures, all properties are offered for sale with VA-vendee financing. The Administration now proposes to eliminate vendee financing on property sales. Once again, neither approach would maximize the government's return on all properties. The properties in our sample of actual cases ranged from a $15,000 two-bedroom detached house in an economically depressed neighborhood in Detroit to a $90,000 high-rise condominium, complete with fireplace, in Los Angeles. While the Los Angeles condominium could probably be sold for cash without a significant reduction in the asking price, it is questionable whether the Detroit property could be sold for cash at any reasonable price.

Our analysis indicates that larger net savings could be obtained by offering for sale without vendee financing those properties likely to sell for cash and by tightening the credit standards applied to those vendee loans that are needed to sell the remaining properties at a reasonable price.

OPTIONS FOR FINANCING THE FUND'S DEFICITS

The President's budget states that the Administration's proposals to change the operation of the loan guaranty program will take effect on March 1. It now appears that the effective date has been postponed while further study is made of the issue. If current procedures remain in effect throughout fiscal year 1984, Mr. Chairman, both CBO and VA have estimated that a deficit will be incurred by the revolving fund this year.

Furthermore, none of the changes under discussion will prevent deficits in the fund beyond 1987.

In the absence of transfers from the Direct Loan Revolving Fund, there are three potential external financing sources that could be tapped by the loan guaranty fund to offset the gap between program costs and collections:

- Appropriating the necessary funds directly or indirectly to the Loan Guaranty Revolving Fund;
- Authorizing the Loan Guaranty Revolving Fund to borrow from the Treasury; or
- Crediting Loan-Origination Fees to the Loan Guaranty Revolving Fund.

Appropriations

Appropriations could be provided to the Readjustment Benefits account and transferred to the Loan Guaranty Revolving Fund with no change in the authorizing law, or appropriations could be authorized directly to the revolving fund itself.

Appropriations do not have to be repaid, nor are they constrained by outside economic conditions. Also, Congressional control over program activity would be enhanced by the annual review of appropriation requests.

The major disadvantage is the difficulty of estimating the future needs of the Loan Guaranty Revolving Fund with precision as far in advance as is necessary for the submission of the request. This problem could be avoided, however, by the appropriation of indefinite budget authority. Under this concept, the amount appropriated is not stated as a specific sum, but is defined by a specified variable, such as the amount necessary to cover obligations in excess of collections. This mechanism would insure that the Loan Guaranty Revolving Fund had the authority to incur all necessary obligations in excess of its collections, without appropriating any surplus funds.

Treasury Borrowing

Alternatively, the Loan Guaranty Revolving Fund could be authorized to borrow from the Treasury. Like indefinite appropriations, borrowings could be limited to the specific amounts required and could be timed to meet the needs of the Loan Guaranty Revolving Fund. The drawback to borrowing from the Treasury, however, is that interest must be paid on the amounts borrowed, thereby increasing total fund costs though not total federal outlays. Further, since the Loan Guaranty Revolving Fund operates at a net loss over time, it is unlikely that the fund would ever be in a position to repay the principal. Thus, the interest payments over time would compound quickly and become a substantial factor in the fund's future operating costs.

Loan Origination Fees

The Omnibus Reconciliation Act of 1982 (Public Law 97-253) established a fee--one-half of one percent of the loan principal--for all non-service-disabled veterans obtaining a VA-guaranteed home loan. During fiscal year 1983, $77.5 million in fees was collected on 236 thousand new loans. These fees were deposited, as stipulated under current law, as miscellaneous receipts of the Treasury.

If the law were amended to credit the fees to the revolving fund, however, the $90 million in fees estimated to be collected in fiscal year 1984 would finance 70 percent of the deficit expected in the fund this year. In order for the fees to provide long-range assistance to the fund, it would be necessary to repeal the provision of current law specifying that the fees be collected only on loans closed prior to October 1, 1985.

It is estimated that approximately $200 million in origination fees will be collected before the termination date and an additional $600 million from 1986 to 1989 if the termination date is repealed. Over the six-year period these collections would finance more than 70 percent of the deficit that is expected under current policies. Fees could be used to finance the program completely, if they were increased to a level sufficient to fully offset the net costs of the fund. However, origination fees would be an automatic form of financing and, thus, would eliminate the need for annual appropriation review. As a result, Congressional control over the operation of the revolving fund could be diminished.

Unlike the other financing options, the origination fees are paid by veterans. Thus, an extension of the fees beyond the 1985 termination date or an increase in their rate would reduce total government outlays by the amount of fees collected.

ANALYSIS OF S. 1922 AND S. 2265

We have prepared preliminary estimates of the budgetary impact of the two bills under consideration by the Committee.

S. 1922

The Veterans' Housing Foreclosure Assistance Act of 1983, S. 1922, would not be expected to have a major impact on the federal budget for several reasons. Section 1816 of Title 38 (U.S.C) grants the Administrator the authority to acquire loans in default from the lender and to provide the veteran-borrower whatever forbearance the Administrator deems warranted. We assume that the vast majority of veterans who would qualify for advances under S. 1922 are already being served under current law. CBO has, therefore, estimated that less than 2,000 advances would be made under this provision. In addition, because of the short repayment period of only four years, we have also assumed that 65 percent of the mortgages for which advances were made would terminate in foreclosure despite the assistance.

It was assumed that the direct loan obligations would be made from the Direct Loan Revolving Fund and collections of repayments would be credited to that fund. In this event, the fund's fiscal year 1985 outlays would be expected to increase by about $7 million. With the collection of repayments in the outyears, however, the net five-year outlay impact is estimated at only around $5 million.

Because the advances would allow the veteran-mortgagors involved to avoid foreclosure at least temporarily, the Loan Guaranty Revolving Fund would also be affected by this bill. Outlays of this fund would decrease in 1985 and 1986 by around $47 million, under current policies, as some property acquisitions were avoided. In 1987 and 1988, however, outlays would increase by a total of about $42 million because of the ultimate default of some of these mortgages.

S. 2265

S. 2265, which would increase the guaranty ceiling on home loans, would not be expected to have a significant budgetary impact under the current policy of acquiring properties in virtually all cases of foreclosure on VA-guaranteed loans. This practice represents, in effect, a 100 percent guaranty. If, on the other hand, the Administration's proposal to pay the guaranty in all cases is implemented on March 1, the deficit and the outlays of the Loan Guaranty Revolving Fund could be expected to increase by nearly $200 million between 1985 and 1989 as a result of this bill.

This concludes my statement, Mr. Chairman. I will be pleased to respond to any questions you or other members of the Committee may have.

Chairman SIMPSON. Next please, Robert Mahn. Did I say that correctly, Mahn?

Mr. MAHN. That's fine.

Chairman SIMPSON. Thank you, sir. Senior Vice President of Mortgage Operations of the Federal National Mortgage Association, Washington; and Robert Wertheim, chairman of the Southwest Mortgage Co., Albuquerque, NM, accompanied by Burton C. Wood, legislative counsel of the Mortgage Bankers Association of America in Washington. You may wish to introduce, I see a Mr. Cumberland. How are you, sir? Nice to see you.

If you will please proceed.

Mr. MAHN. Me?

Chairman SIMPSON. Yes.

TESTIMONY OF A PANEL CONSISTING OF: ROBERT J. MAHN, SENIOR VICE PRESIDENT, MORTGAGE OPERATIONS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, WASHINGTON, DC; ROBERT WERTHEIM, CHAIRMAN, SOUTHWEST MORTGAGE CO., ALBUQUERQUE, NM, ACCOMPANIED BY BURTON C. WOOD, LEGISLATIVE COUNSEL, MORTGAGE BANKERS ASSOCIATION OF AMERICA, WASHINGTON, DC; AND WILLIAM E. CUMBERLAND, GENERAL COUNSEL

Mr. MAHN. Mr. Chairman, my name is Bob Mahn.-I am Senior Vice President, Mortgage Operations, for Federal National Mortgage Association [Fannie Mae].

I have submitted a written statement for the record and I request that it be accepted.

Chairman SIMPSON. Without objection so ordered.

Mr. MAHN. Fannie Mae was chartered by the Congress to help finance housing. It purchases mortgages from financial institutions, such as mortgage bankers, savings and loans, and commercial and savings banks, thus restoring their liquidity. Fannie Mae owns about 450,000 VA loans—some $11.2 billion, representing 11 percent of all of the VA home mortgages outstanding.

These loans are secured by properties located in all 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam.

I appreciate having the opportunity today to discuss the administration's stated budget policy for fiscal year 1985 which will change VA's practice of paying the full foreclosure claim amount and accepting title to the acquired property in most instances.

Because of the size of Fannie Mae's portfolio, this matter is of vital interest to us. We are particularly concerned about the retroactive effect of this change.

Implementation of the administration's plan that VA pay the guaranty amount in almost all cases would be a most unfair and disruptive change. It will mean that all of our past VA loan purchases were based on invalid assumptions.

A change in the VA policy could mean that we could be faced with managing and marketing the properties for 100 percent of our foreclosures, instead of the 5 percent for which we are now responsible. Using our 1983 experience, we estimate that over the next 3 years, we would acquire an additional 7,800 properties as a result of this change, and our best estimate indicates that we would have to sell these properties for an average of at least 66 percent of their original value in order to avoid a loss.

In many parts of the country the high incidences of vandalism, the long redemption periods, stagnant real estate markets, and declining property values make that goal very difficult to attain.

The administration's position is based on the estimate of the President's Private Sector Survey on Cost Control—the Grace Commission—which indicated that this change would affect some 10,000 cases in the first year and would save the VA $68 million. That $68 million savings represents a cost to the holders of the mortgages.

The obvious solution for avoiding these additional costs is to stop buying VA loans altogether. Fannie Mae does not intend to do that. In fact, we believe that the planned change may create a greater need for Fannie Mae to be a purchaser of VA loans. At present, the majority of VA loans are pooled to create Ginnie Mae mortgage-backed securities because the lenders get a better price for the mortgage by doing this. But if the lender is required to absorb all the foreclosure losses they will be reluctant to place these mortgages into Ginnie Mae pools.

Without the Ginnie Mae security available as an outlet, the cost of VA mortgage financing will be higher and some veterans with qualifying income today will be cut off from mortgage funds in the future.

As we see it, there are four basic alternatives that Fannie Mae must consider to minimize our potential losses if this change becomes effective.

First, we could require a minimum 5-percent downpayment on all VA loans.

One of the factors that makes a VA loan attractive is its no downpayment feature. This change in policy would make it impossible for some veterans to purchase a home.

Second, we could decrease our maximum exposure from 75 percent to 70 percent.

By reducing the maximum to 70 percent we would reduce the risk of loss. But this change would impact an even greater number of veterans than would be affected by the first alternative.

Third, Fannie Mae could require a separate appraisal and an analysis of the veteran's ability to pay, based on our standards for conventional loans.

A change to a policy of this kind would require lenders to base their underwriting decisions on our conventional underwriting standards, which tend to be stricter than VA's. We would also require a separate appraisal to assure that the property's value adequately supports the proposed loan amount.

The application of these stricter credit and property standards can reduce the number of veterans who are able to get new loans.

And finally, Fannie Mae could increase its yield requirement to compensate for additional anticipated losses.

Any increase in yield requirements would add to the cost of VA financing because lenders would charge additional discount points at origination in order to offset the lower price that they would receive for the loan. At current interest rates, a one-quarter of 1-percent increase represents 1½ discount points.

It seems to me that the short-run method to replenish the Loan Guaranty Revolving Fund is to aggressively dispose of the current inventory of 25,000 properties the VA holds. Using VA's 1983 averages for sales price, we estimate this inventory has a realizable value of $750 million. Even if sold for a lesser amount it would significantly restore the fund.

The answer does not lie, either in the short run or in the long run, in adopting a policy of uniformly paying the guaranty amount in virtually all cases.

Thank you.

Chairman Simpson. Thank you.

[The prepared statement of Robert J. Mahn, senior vice president, mortgage operations, Federal National Mortgage Association, follows:

PREPARED STATEMENT OF ROBERT J. MAHN, SENIOR VICE PRESIDENT, MORTGAGE OPERATIONS, FEDERAL NATIONAL MORTGAGE ASSOCIATION

Mr. Chairman and Members of the Committee:

My name is Bob Mahn. I am Senior Vice President - Mortgage Operations for the Federal National Mortgage Association.

The Federal National Mortgage Association -- also known as Fannie Mae -- began in 1938 as a subsidiary of the Reconstruction Finance Corporation, chartered by the Federal Housing Administrator. After several reorganizations, the Congress in 1968 separated Fannie Mae into two distinct organizations: Fannie Mae and the Government National Mortgage Association (Ginnie Mae). Fannie Mae became a privately owned corporation, listed on the New York and other Stock Exchanges and supervised in certain respects by the Secretaries of Housing and Urban Development, and Treasury. It has a 15 person Board of Directors. Ten are elected by the 33,000 holders of its 65 million shares of stock; the remaining five are appointed by the President of the United States.

Fannie Mae was chartered by the Congress to help finance housing. It purchases mortgages from financial institutions, such as mortgage bankers, savings and loan associations, and commercial and savings banks, thus restoring their liquidity. Fannie Mae obtains funds to purchase these mortgages largely through short- and medium-term borrowings in the capital markets.

Fannie Mae's secondary market activities improve the efficiency of the housing finance market. Its operations transform mortgages from small, illiquid, and local investments into highly rated securities which attract money to housing. The national scope of Fannie Mae's operations has helped balance the flow of mortgage funds among geographic regions of the nation. Fannie Mae has also worked with Ginnie Mae and HUD to increase the availability of low- and moderate-income housing.

Fannie Mae owns about 450,000 VA loans -- some $11.2 billion, representing 11 percent of all VA home mortgages outstanding. These loans are secured by properties located in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands and Guam. A full state distribution of our VA portfolio appears at the end of this paper.

I appreciate having the opportunity today to discuss the Administration's stated budget policy for FY 1985 to change VA's practice of paying the full foreclosure claim amount and accepting title to the acquired property in most instances. In his Budget Message (page 5-140) the President stated that, beginning in mid-1984, the VA will uniformly pay guaranty claims in lieu of purchasing properties at foreclosure sales.

Because of the size of Fannie Mae's VA portfolio, this matter is of vital interest to us. We are particularly concerned about the retroactive effect of this change in policy. Our purchasing decisions and pricing determinations for such mortgages have been based on the knowledge and understanding that we could rely on VA's guaranty and also on its practice of accepting title to the majority of the properties acquired through foreclosure. We have relied on VA's appraisals and credit underwriting of new loans rather than duplicating the effort by undertaking these tasks ourselves. The fees we charge and the prices we pay today for VA mortgages reflect these practices and understandings.

Implementation of the Administration's plan that VA pay the guaranty amount in almost all cases would be a most unfair and disruptive change. It will mean that all of our past VA loan purchases were based on invalid assumptions. Such action will require that we consider steps to protect Fannie Mae against losses that were not expected at the time these loans were purchased. One such measure would be to charge higher fees and/or discount points for all future VA mortgages purchased, sufficient to cover unanticipated losses on existing loans as well as on those that may be purchased in the future. This could mean that many future applicants for VA loans would be faced with higher housing costs because these veterans would be required to absorb an additional financial burden to offset anticipated losses for their own loans as well as for all VA loans now in our portfolio.

Although the exact losses that we would incur as a result of the planned change depend on a number of circumstances, we can estimate the potential impact based on our past experience. For instance, in 95 percent of our recent foreclosures, VA paid the full claim amount and acquired the property. A change in VA policy could mean that we could be faced with managing and marketing the properties for 100 percent of our foreclosures, instead of the 5 percent for which we are now responsible. Using our 1983 experience, we estimate that, over the next three years, we would acquire an additional 7800 properties as a result of this change. This would result in a significant increase in the size of our property management staff and the associated administrative expenses. Our best estimates indicate that we would have to sell properties for an average of at least 66 percent of their original value to avoid a loss. In many parts of the country, high incidences of vandalism, long redemption periods, stagnant real estate markets and declining property values make that goal difficult to attain.

The Administration's position is based on the estimation of the President's Private Sector Survey on Cost Control (Grace Commission) that this change would affect 10,150 cases in the first year, saving VA $68 million. That $68 million savings to VA represents a loss for the holders of the mortgages. Since Fannie Mae holds 11 percent of the outstanding VA loans, we can conclude that about $7.5 million of that will be transferred to us. However, our own estimates, based on actual 1983 foreclosure experience -- for both Fannie Mae and the VA itself -- indicate that the change would more likely affect 20,000 cases. Using those estimates, our losses could be $15 million the first year.

Whether our losses would be the $7.5 million developed from the Grace Commission's estimates, our estimate of $15 million, or some other number, such continuing losses would require that we find ways to offset these new risks. We have several alternatives available. Unfortunately, all of them, either directly or indirectly, would very likely increase the cost of housing and decrease the mortgage financing available to veterans.

The obvious solution for avoiding additional risks on VA loans is to stop buying VA loans altogether. Fannie Mae does not intend to do that. In fact, we believe that the planned change may create a greater need for Fannie Mae to be a purchaser of VA loans. At present, the majority of VA loans are pooled to create Ginnie Mae mortgage-backed security issues since Ginnie Mae's guaranty is backed by the full faith and credit of the federal government and lenders can get a better price for their mortgages by pooling them. Because the lender must absorb all foreclosure losses for loans placed in Ginnie Mae pools, lenders will be reluctant to pool VA loans if the plan goes into effect. Without the Ginnie Mae mortgage-backed security outlet, the cost of VA mortgage financing will be higher and some veterans with qualifying income today will be cut off from mortgage funds in the future.

As we see it, there are four basic alternatives that Fannie Mae must consider to minimize our potential losses if this change becomes effective. These alternatives can be considered separately or in some combination.

1. Fannie Mae could require a minimum 5 percent downpayment on all VA loans it purchases.

   At present, we will purchase a VA loan up to $110,000 without requiring a downpayment. One of the factors that makes a VA loan attractive is its "no downpayment" feature. If we require a minimum downpayment -- 5 percent is also our requirement for conventional loans -- we can reduce the probability of foreclosure and the risk of loss in the event of foreclosure. Both outside studies and our own experience support that premise. This change in policy will make it impossible for some veterans to purchase a home.

2. Fannie Mae could decrease its maximum exposure on VA loans from 75 percent to 70 percent.

   We currently buy VA loans up to four times the VA guaranty amount, plus any downpayment made by the veteran, subject to a maximum loan amount of $135,000. Our maximum loss exposure is therefore 75 percent of the loan amount. We follow this same approach for conventional loans by requiring any exposure in excess of 75 percent to be covered by private mortgage insurance.

   By reducing our maximum VA exposure to 70 percent, we would be recognizing the additional risk that will be created if the change in VA's policy occurs. The reduced exposure would reduce our risk of loss. This change could impact a greater number of veterans than would be affected by the first alternative. First, veterans wanting "no downpayment" loans would be limited to a $91,500 loan rather than the current $110,000. In addition, although we would still buy loans up to $135,000 with a downpayment, the amount of the required downpayment would be larger.

3. Fannie Mae could require a separate appraisal and an analysis of the veteran's ability to pay, based on our standards for conventional loans.

Lenders now evaluate an application for a VA loan based on VA's credit underwriting standards. VA designates its own appraisers to establish a reasonable value for the property. Fannie Mae purchases VA loans solely on the basis of their having met VA's underwriting and property standards. A change to our policy would require lenders to base their underwriting decisions on our conventional underwriting standards, which tend to be more strict than VA's. We would also require a separate appraisal to assure that the property's value adequately supports the proposed loan amount.

Stricter credit underwriting standards should result in a lower foreclosure ratio, while requiring a separate appraisal should result in fewer foreclosure losses by eliminating questionable properties. The impact of this alternative to veterans is twofold. First, the cost of VA financing would increase by the cost of the required appraisal -- between $125 and $200. Because VA will not allow the veteran purchaser to pay this cost, it will be passed on to the property seller. Property sellers tend to increase the property's sales price to cover such costs or avoid accepting an offer for VA financing when it entails additional expenses. The application of stricter credit and property standards can reduce the number of veterans who are able to get new loans.

4. Fannie Mae could increase its required yield to compensate for additional anticipated losses on VA loans.

Since the purpose of a required yield is to reflect the risk inherent in the mortgage, the introduction of increased risks for VA mortgages would logically lead to higher yield requirements. The degree of any increase would have to take into consideration a number of factors -- our increased administrative expenses, the time that acquired properties would have to be held as non-earning assets, our borrowing costs, etc. Any increase in our yield requirements would add to the cost of VA financing since lenders would charge additional discount points at origination to offset the lower price they would be receiving for the loan in the secondary market. At current interest rates, a one-quarter of one percent increase in yield represents between one and one and a half discount points in price.

We at Fannie Mae can appreciate efforts toward cutting government costs and we recognize that no single recommendation can be acceptable to everyone when it affects such a wide diversity of interested parties. We face that same dilemma in reaching a decision on the action we will take if the plan is implemented. However, we feel that it is particularly unfortunate and unavoidable that, no matter which alternative we choose, the nation's veterans will bear the burden and will suffer the loss of benefits presently available by federal law.

Figures obtained from the Veterans Administration regarding 8818 properties sold during the first seven months of FY 1983 indicate that the total loss per case averaged $14,400, including guaranty payments and all property management, selling and carrying costs. The average guaranty amount for these properties was approximately $19,000. By acquiring and disposing of the properties, the VA saved $4,600 per case, or a total of over $40 million. In view of the fact that the Administration's planned policy change may cost the VA money, surely it should be subjected to further consideration and study by the Congress.

The current VA policy has functioned effectively over the years. It places no undue financial burden on either the veteran, the mortgage lender or the government. The planned change would be costly for veterans, mortgage lenders and, quite possibly, the federal government. We question whether the change will provide the anticipated reduction in federal government expenditures.

The short run method to replenish the Loan Guaranty Revolving Fund is to aggressively dispose of the current inventory of 25,000 properties. Using VA's 1983 averages for sales price and related expenses, we estimate that this inventory has a net realizable value of $750 million. Even if sold for a lesser amount, the proceeds would significantly restore the Loan Guaranty Revolving Fund. In the longer term, with prudent underwriting, property management and marketing practices and realistic bidding on foreclosed properties, the cost of this program could be significantly reduced. The answer does not lie, either in the short run or the long run, in adopting a policy of uniformly paying the guaranty amount in virtually all cases.

The Administrator of Veterans Affairs has the authority to implement this new policy without statutory change. Legislation is required to restrict this authority. We believe the proposed change should go through the legislative process. We further strongly urge that the VA's present policy be retained -- it works, without unfairly penalizing any one sector or adding to the cost of housing for America's veterans.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
VA PORTFOLIO
STATE DISTRIBUTION

REGION	LOAN COUNT	PRINCIPAL BALANCE (IN 000'S)
Southeastern	101,449	$2,376,377
AL	14,220	343,618
FL	25,149	692,600
GA	18,725	452,590
KY	3,873	68,644
MS	4,164	92,107
NC	14,354	294,978
SC	8,403	179,340
TN	12,561	252,499
Midwestern	72,327	$1,426,191
IL	11,477	255,517
IN	14,620	239,430
IA	2,481	55,389
MI	14,058	251,523
MN	6,101	173,940
NE	1,196	28,399
ND	32	1,104
OH	19,763	356,859
SD	258	7,088
WI	2,341	56,942
Southwestern	110,016	$2,455,102
AR	3,794	71,290
CO	13,561	365,815
KS	5,640	105,409
LA	15,081	378,661
MO	7,192	126,918
NM	4,188	69,110
OK	9,732	203,335
TX	50,828	1,134,565
Western	110,626	$3,318,028
AZ	13,030	359,376
CA	69,711	2,102,827
ID	2,213	64,253
MT	724	18,915
NV	6,047	186,688
OR	946	21,525

REGION	LOAN COUNT	PRINCIPAL BALANCE (IN 000'S)
Western (cont...)		
UT	4,817	132,211
WA	9,629	295,387
WY	1,648	54,344
AK	572	22,522
HI	1,045	49,562
GU	244	10,417
Northeastern	59,153	$1,558,033
CT	276	9,191
DE	939	24,008
DC	1,674	41,573
ME	51	1,867
MD	7,841	265,848
MA	290	10,166
NH	64	3,325
NJ	10,144	259,806
NY	7,156	177,441
PA	10,588	207,008
RI	8	339
VT	1	56
VA	16,887	500,356
WV	345	6,832
PR	2,830	48,728
VI	59	1,487
National:	453,571	$11,133,731

Chairman SIMPSON. Mr. Wertheim please.

Mr. WERTHEIM. Thank you, Mr. Chairman.

My name is Robert Wertheim. I am chairman of Southwest Mortgage Co. of Albuquerque, NM, a mortgage banking company, and vice chairman of the Legislative Committee of the Mortgage Bankers Association of America.

We appreciate the opportunity to testify on the administration's proposal to discontinue acquiring properties after default; on the VA Home Loan Guaranty Program generally; on S. 2265, a bill to increase the guaranty limits in the program; and on S. 1922, the "Veterans' Housing Foreclosure Assistance Act of 1983," a legislative proposal for financial relief for homeowners with VA-guaranteed home loans who are facing foreclosure.

MBA believes that the home loan guaranty program is an excellent one and that the VA has operated the program very well. We oppose the change in the manner in which the program has been operated, as proposed in the President's budget for fiscal year 1985.

We also oppose the proposal in the President's budget that the VA discontinue selling vendee loans with recourse. We support the proposal to increase the maximum guaranty to $35,000. We urge that the guaranty fee imposed on veteran borrowers be allocated to the VA rather than reverting to general Treasury funds.

MBA urges that the maximum interest rates on VA loans not be administratively set and that interest rates on VA loans be negotiated freely. MBA also urges that the VA be authorized to guarantee adjustable rate mortgages.

Included in the President's budget for fiscal year 1985, is a statement that the VA will make substantive changes in the way that the VA Loan Guaranty Program operates. This policy would change the current practice of acquiring title and disposing of the foreclosed property, a practice that is most cost effective for the taxpayers; follows FHA procedure; has encouraged active lender participation in the VA Guaranty Program since 1944; and has enabled lenders and investors to make home financing available to veterans on better terms than are available in the conventional market.

The VA will not save money by paying the lender the guaranty amount in a foreclosure case. When the past experience of the VA is examined, it is clear that since 1979, the average loss on properties acquired and subsequently sold is about $10,000 less than if the VA had paid the average guaranty on those properties. The proposed change would cause a greater drain on VA finances than the current policy because VA's cash flows will be diminished once the current inventory of properties is liquidated.

The change in the VA guaranty settlement policy suggested by the administration would affect most directly both VA lenders and veterans themselves.

To require lenders to deal with property disposition would make VA-guaranteed loans less attractive to lenders and increase the cost of mortgage credit to veteran borrowers. Vietnam-era veterans, who are still entering the housing market as first-time homebuyers, would be particularly hard hit by this proposed change.

The proposal in the President's budget would apply to all loans guaranteed by the VA, even those loans made by lenders over past years. To change the rules for loans already made would obviously be unfair to lenders, but it would also tend to discourage future participation in the veterans' loan program, because lenders, once burned, would naturally and understandably be reluctant to continue participating in the program.

The President's budget for fiscal year 1985 indicates that the VA will discontinue selling vendee loans with recourse. MBA is opposed to this proposed change in current practices. Sale of vendee loans without recourse will shift the credit risk of default from the VA to private purchasers, and purchasers will adjust their purchase prices accordingly. Because of its size, and because it is the lender, the Government is a more efficient manager of vendee loan credit risk than any private buyer can be.

Therefore, it is highly likely that the reduction in the sales price paid by the private industry buyers of vendee loans will be greater than the savings the Government will realize by transferring the risk of default.

MBA supports the proposal included in S. 2265 to increase the maximum amount of the VA loan guaranty to $35,000 for home loans. Such an increase would bring the relationship between the guaranty amount and the ever increasing cost of new and existing housing closer to historical ratios.

MBA understands that the Loan Guaranty Revolving Fund will not be able to support the guaranty activities of the VA during 1984 and 1985 without appropriations. MBA urges the committee to authorize promptly a sufficient level of expenditure to maintain the functioning of the Home Loan Guaranty Program.

MBA appreciates this opportunity to present our views. We have submitted written information which we ask that you put into my testimony.

I would be very pleased to respond to any question that you might have, Mr. Chairman.

Chairman SIMPSON. Thank you very much.

[The prepared statement of Robert Wertheim, chairman, Southwest Mortgage Co., Albuquerque, NM, follows:]

PREPARED STATEMENT OF ROBERT WERTHEIM, CHAIRMAN, SOUTHWEST MORTGAGE COMPANY, ALBUQUERQUE, N. MEX.

Mr. Chairman and Members of the Committee, my name is Robert Wertheim. I am Chairman of Southwest Mortgage Company of Albuquerque, New Mexico, a mortgage banking company, and Vice Chairman of the Legislative Committee of the Mortgage Bankers Association of America.* Accompanying me are Burton C. Wood, MBA's Legislative Counsel, and William E. Cumberland, MBA's General Counsel.

Before beginning our testimony, Mr. Chairman, we want to thank you for moving so promptly upon learning of the proposal of the Veterans Administration (VA) to change its procedure for satisfying guaranties under the VA home loan guaranty program. Your quick and strong objection that the change should not be implemented without Congressional review has given the VA an opportunity to avoid making a serious mistake.

We appreciate the opportunity to appear before you today to testify on the Administration's proposal to discontinue acquiring properties after default; on the VA home loan guaranty program generally; on S 2265, a bill to increase the guaranty limits in the program; and on S 1922, the "Veterans' Housing Foreclosure Assistance Act of 1983," a legislative proposal for financial relief for homeowners with VA-guaranteed home loans who are facing foreclosure.

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of mortgage and real estate finance. MBA's membership comprises mortgage originators, mortgage investors, and a variety of industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, financing, selling, and servicing real estate investment portfolios. Members include:

- o Mortgage Banking Companies
- o Mortgage Insurance Companies
- o Life Insurance Companies
- o Commercial Banks
- o Mutual Savings Banks
- o Savings and Loan Associations
- o Mortgage Brokers
- o Title Companies
- o State Housing Agencies
- o Investment Bankers
- o Real Estate Investment Trusts

MBA headquarters is located at 1125 15th Street, N.W., Washington, D.C. 20005; telephone: (202) 861-6500

MBA believes that the home loan guaranty program is an excellent one and that the VA has operated the program well. We oppose the change in the manner in which the program has been operated, as proposed in the President's Budget for FY 1985. We also oppose the proposal in the President's budget that the VA discontinue selling vendee loans with recourse. We support the proposal in S 2265 to increase the maximum guaranty to $35,000 from $27,500. We urge that the guaranty fee imposed on veteran borrowers be allocated to the VA rather than reverting to general Treasury funds. MBA also urges that the maximum interest rates on VA loans not be administratively set and that interest rates on VA guaranteed loans be negotiated freely .

With regard to foreclosure relief, MBA believes that mortgage delinquencies are at or near their peak, and thus we question the need for Federal financial relief measures. However, MBA does have some general views on the form mortgage relief legislation should take, if Congress determines that relief is necessary at this time, and some specific suggestions with respect to S 1922, a measure introduced by Senator Specter directed toward assisting veteran homeowners experiencing difficulty with their mortgage payments.

VA HOME LOAN GUARANTY PROGRAM

Included in the President's Budget for FY 1985, submitted to Congress on February 1, 1984, is a statement that the VA will make substantive changes in the way that the VA Loan Guaranty Program operates. The budget says that, "Effective March 1st, 1984, VA will pay the lender's claim in accordance with the terms of the guarantee." This policy would change the current practice of acquiring title and disposing of the foreclosed property, a practice that is more cost effective for the taxpayers; is consistent with FHA procedure; has encouraged active lender participation in the VA guaranty program since 1944; and has enabled lenders and investors to make home financing available to veterans on better terms than are available in the conventional market.

The change is aimed at the VA's role in the event of a foreclosure. When a VA-guaranteed loan falls into default, the VA has two paths of action open to it. It can pay the lender the guaranty amount, which is 60 percent of the loan amount up to a maximum of $27,500, or it can pay the costs the lender has incurred and take title to the property. Based on its analysis of the cost to the government, the VA has opted for the latter course of action, acquisition of the property, in more than 95 percent of guaranty claim cases over the life of the program. After taking title to the property, the VA performs necessary maintenance and renovation work and then sells the property, recouping all or part of its expenditures.

In accordance with the President's budget proposals, the VA would cease to acquire properties and would simply pay the guaranty in all cases. This policy had its origins in work done by a task force of the President's Private Sector Survey on Cost Control, better known as the Grace Commission after its chairman, Peter Grace. There are inconsistencies and oversights in the Commission's analysis, which will be discussed later in the testimony. Not the least of these is the lack of understanding of the impact this proposed change in policy would have on the market for VA-guaranteed loans and ultimately on veterans themselves.

The VA Loan Guaranty Program

The VA home loan guaranty program is an entitlement program established under the Serviceman's Readjustment Act of 1944. The program provides two primary benefits to qualified veterans. First, the VA guarantees a portion of the veteran's mortgage principal. The amount of this guaranty has varied over the years and is now 60 percent of the loan amount, up to a maximum of $27,500. The second benefit offered by the program is the stipulation that no downpayment need be required by the lender. A loan with no down payment is a "100 percent loan" because the loan amount is 100 percent of the value of the property. On a monthly basis from 1981 to 1983, between 52 percent and 71 percent of VA-guaranteed loans closed were 100 percent loans (Exhibit 1).

VA-guaranteed loans made up almost 8 percent of all single family mortgage loans originated in 1982 (Exhibit 2) and 10 percent during the first three quarters of 1983.

Since the VA initiated its program in 1944 until the end of September 1983, 11.5 million loans have been guaranteed. The vast majority of those loans have cost taxpayers only the minor administrative cost of processing the initial approval. Only 4 percent of those loans have resulted in foreclosure. The foreclosure rate for VA-guaranteed loans has increased somewhat in the past two years following the severe recession that gripped the U.S. economy and the historically high unemployment rates that resulted (Exhibit 3).

The budgetary mechanism for the VA Home Loan Guaranty Program is the Loan Guaranty Revolving Fund (LGRF). The fund was established to balance the income and expenses caused by the operation of the program. The source of income for the fund is primarily from the sale of "vendee" loans. Vendee loans are made by the VA to a borrower (veteran or non-veteran) by the VA when an acquired property is sold to that borrower by the VA. By reselling its acquired properties, the VA recoups some, if not all, of the costs incurred to acquire the property. The vendee loans are then sold to investors. Expenses accrued by the LGRF are predominantly from the acquisition and sale of foreclosed properties.

When the LGRF is in a deficit position, the VA transfers money from its Direct Loan Revolving Fund (DLRF). The DLRF exists as a result of a former VA policy to make loans to veterans who live in credit-short areas and can find no other lender to make a VA-guaranteed loan. In this instance, the VA acts as a lender and has accumulated a surplus in the DLRF.

Recently, the VA was instructed by the Administration to sell the loans the VA holds as a result of its activities as a direct lender and to make no more direct loans. Consequently, the asset base of the DLRF is disappearing. In addition, due to the sophistication of the mortgage markets, there are currently few credit-deficient areas in the country and, therefore, there is less demand for direct loans. Thus, at a time when the LGRF is experiencing great cash demands due to the recent recession and ensuing increased foreclosures, the DLRF is in its most illiquid position.

The LGRF expects to lose at least $100 million in FY 1984, according to a Congressional Budget Office estimate. It is this expected deficit that caused the Reagan Administration to propose that the VA no longer acquire properties.

Erroneous Assumptions of the Administration's Analysis

The Grace Commission task force rested its recommendation on two major points, and apparently the Administration does as well. First, there is an assumption that, if the VA ceases to acquire foreclosed properties, there will be an enormous apparent cost saving to the government. Second, the task force compared the VA's experience with foreclosed properties with methods used by the private mortgage insurance industry. There are flaws in both these assumptions.

The VA will not save money by paying the lender the guaranty amount in a default case. When the past experience of the VA is examined, it is clear that, since 1979, the average loss on properties acquired and subsequently sold is about $10,000 less than if the VA had paid the average guaranty on those properties (Exhibit 4). The proposed change would cause a greater drain on VA finances than the current policy because VA's cash inflow will be diminished once the current inventory of properties is liquidated.

In comparing the VA methodology with that of private mortgage insurance companies, the Commission overlooks a crucial variable-risk exposure. The mortgage insurance companies guarantee only 20 to 25 percent of the loan amount. Consequently, for loans with similar balances outstanding, their liability is far less in the case of a foreclosure than the VA's, which guarantees 60 percent of the loan amount up to $27,500.

If a $50,000 loan goes into foreclosure, it is advantageous for a mortgage insurance company with a 20 percent exposure to pay the claim on the property if the anticipated loss on the acquisition and resale of the property were as low as $10,001. The VA, on the other hand, should pay the guaranty only if the anticipated loss is greater than $27,500.

The far greater exposure of VA makes it inappropriate to compare the practices of the two institutions in setting losses. The higher exposure of the VA compared with private mortgage insurance company coverage indicates that it often will be in the taxpayer's best interests for the VA to acquire property, even though mortgage insurance company coverage on the same property would lead to a payment of the claim.

Effect on Lenders and Veterans

The change in the VA guaranty settlement policy suggested by the Administration would affect most directly both VA lenders and veterans themselves.

As a group, mortgage bankers make about three-quarters of all VA-guaranteed loans, more than any other class of lenders (Exhibit 5). Thus, mortgage bankers would be affected more than other lenders by the change in VA policy. The impact will affect certain aspects of a lender's business, as well as the lender's perception of the risk potential of a VA-guaranteed loan.

One of the major assumptions made by the task force of the Grace Commission is that, if the VA does not acquire a property by entering a bid to do so, there will be a third party who will acquire the property from the lender. By making this assumption, the Administration sidesteps the issue of a lender being left holding title to property. The assumption that a third party buyer would come forward assumes a perfect market. There may be a prospective buyer in the market for the foreclosed property at a price near or below what the VA would have bid. The problem is that foreclosure sales require ready cash and information not available to most buyers.

A more realistic scenario is that, if the VA enters no bid, in only a small percentage of cases will a third party will take title to the property. The majority of foreclosures will result in the lender taking title to the property and being responsible for maintenance, renovation, marketing, and eventual sale of the property.

The vast majority of lenders, especially small mortgage bankers, are not capitalized to deal with property disposition. In order to complete the transfer quickly and efficiently, lenders would be forced either to develop property disposition centers or turn to others who, for a fee, would handle the property disposition. Either approach would put lenders, especially the smaller ones, under great financial strain. Needless to say, it would also make VA-guaranteed loans less attractive to lenders and increase the cost of mortgage credit to veteran borrowers. Vietnam-era veterans, who are still entering the housing markets as first-time homebuyers, would perhaps be particularly hard hit by this proposed change.

VA-guaranteed loans would be perceived as carrying a much larger share of risk to lenders in the mortgage markets. Lenders would begin to apply more stringest underwriting procedures to applications of prospective VA borrowers and might even cease to offer VA-guaranteed loans in small towns, rural areas, and economically depressed areas where a foreclosed property might be especially difficult to sell. A higher yield would be required in the market to compensate investors for the additional risk they are accepting by purchasing a VA-guaranteed loan.

By making this policy change, the Reagan Administration would be creating an atmosphere in which veterans seeking VA-guaranteed loans will be second class citizens. This seems directly opposed to the concept that legislators had for the program at its inception in 1944.

Retroactivity

The proposal in the President's budget would apply to all loans guaranteed by the VA, even those loans made by lenders over past years. When the loans now held in portfolio were made, the VA had led lenders to believe that the VA home loan guaranty program would be operated in a manner that would not require lenders to establish and maintain property disposition departments, or otherwise absorb the costs of property disposition. Lenders made and priced their loans relying on of the VA to protect the lenders from losses in the event veteran borrowers defaulted. To change the rules for loans already made would obviously be unfair to lenders, but it would also tend to discourage future participation in the veterans' loan program, because lenders, once burned, would be naturally and understandably reluctant to continue participating in the program.

Protection of the Veteran in Temporary Difficulty

As is described in greater length later in the testimony, there is a concerted effort on the part of lenders and the VA to protect the veteran who is in temporary difficulty by allowing him or her to continue to occupy the house as long as possible, even after delinquency in mortgage payments occurs. When the VA acquires title to the home after default, it does not require lenders to evict the veteran and, in many instances, allows the veteran to continue to occupy the home, making rental payments to the VA. If lenders or third parties are forced to acquire properties upon default, this appropriate social concern for the veteran cannot be exercised or controlled by the VA.

This is not to suggest that lenders will cease working with borrowers to avoid foreclosure where reasonably possible, as we describe later in the testimony. But once the business judgment is made that foreclosure is called for, eviction of the veteran will, of necessity, be swift in most cases.

VENDEE LOANS

The President's budget for FY 1985 indicates that the VA will discontinue selling vendee loans with recourse. MBA is opposed to this proposed change in current practice. Sale of vendee loans without recourse will shift the credit risk of default from the VA to private purchasers, and purchasers will adjust their purchase prices accordingly. Because of its size, and because it is the lender, the Government is a more efficient manager of vendee loan credit risk than any private buyer can be. Therefore, it is highly likely that the reduction in the sales price paid by the private industry buyers of vendee loans will be greater than the savings the Government will realize by transferring the risk of default.

INCREASE IN GUARANTY MAXIMUM

MBA supports the proposal included in S 2265, introduced by Senator Cranston, to increase the maximum amount of the VA loan guaranty from $27,500 to $35,000 for home loans and from $20,000 to $22,000 for manufactured housing loans. Such an increase would bring the relationship between the level of the guaranty amount and the ever increasing cost of new and existing housing closer to historical ratios.

From 1974 to 1983, the median price of new single-family homes sold jumped from $35,900 to $75,100, an increase of 109 percent. Had the VA maximum guaranty been adjusted annually in equal proportion to the increase in new home prices, the 1983 guaranty would have reached $36,600 (Exhibit 6 and Exhibit 7).

The median price of existing single-family homes sold increased 120 percent during the period 1974 through 1983, from $32,000 in 1974 to $70,300 in 1983. Adjusting the VA maximum guaranty for annual increases in existing home prices for this period would have resulted in a maximum guaranty of over $38,000 in 1983 (Exhibit 6 and Exhibit 7).

Increasing the maximum guaranty also will increase the opportunity for VA-backed mortgages to be sold in the highly efficient Government National Mortgage Association (GNMA) mortgage-backed security program. By using this program, mortgage lenders generally are able to provide veterans purchasing homes with financing at a lower rate than is available when the program cannot be used. Under GNMA's practice, only loans with at least 25 percent VA guaranty are allowed in the GNMA program. Increasing the loan guaranty maximum to $35,000 from $27,500 would increase the effective ceiling for GNMA program participation from $110,000 to $140,000 for VA loans.

VA HOME LOAN GUARANTY FUND

MBA understands that the Loan Guaranty Revolving Fund will not be able to support the guaranty activities of the VA during 1984 and 1985 without appropriations. While the VA has not needed appropriations for home loan guaranty activity during the past few years, the economic cycle and certain changes in other VA operations will not allow the VA to provide adequate funding internally this year and next. MBA urges the Committee to authorize promptly a sufficient level of expenditure to maintain the functioning of the home loan guaranty program.

In considering requests for authorization and appropriation of funds to support the VA home loan guaranty program, Congress should keep in mind that this program to help veterans obtain housing was not designed nor intended to be actuarially sound nor user-fee supported. From the beginning, there was a recognition that the program would need appropriations, and appropriations have been made in several years during the operation of the program.

In 1982, MBA urged Congress to reject the Administration's proposal to impose a one-half percentage point fee for VA-guaranteed loans. We believed that it was inappropriate and could impose an additional burden upon veterans who wish to become homeowners. In calendar year 1982, approximately 58 percent of all VA-guaranteed home loans were no-downpayment loans. This unique feature of the VA loan guaranty program enabled many veterans, who otherwise might not have been able to afford homeownership, to purchase homes of their own.

The funding fee, in some instances, can be the critical expense charge that places homeownership beyond reach. Given the fact that the VA loan program is an entitlement granted to veterans for past service in the armed forces, MBA believes it is inappropriate to charge a fee to the beneficiaries of the program.

However, Congress permitted a one half percent fee to be charged, and provided that the fee be remitted to the Treasury as general revenue rather than targeted for use by the VA in the administration of the loan guaranty program. Through FY 1983, veterans have paid $77.5 million in funding fees. MBA feels that, because these fees are imposed on veterans using the program, they should be used for program purposes. These fees, if needed to support the loan guaranty program, should be applied directly to defray expenses attached to program administration, similar to the treatment of user-fees under the non-subsidized FHA mortgage insurance programs, rather than treated as general revenues of the Treasury. MBA strongly supports such a change in the use of the funding fee.

FREE VA INTEREST RATE

Under current law, the maximum interest rate allowable on a mortgage guaranteed by the VA is fixed by the VA Administrator. MBA urges that the law be amended to allow interest rates to be determined by the market.

The setting of a maximum interest rate by the VA Administrator harkens back to an earlier era in America's financial history when residential mortgage markets were highly localized and sometimes dominated by a few suppliers of mortgage credit. The possibility for abuse existed, and the Federal government, in the FHA and VA mortgage insurance and guaranty programs, acted in a fashion similar to state governments and set maximum interest rate ceilings. Federal and state interest/usury ceilings were not a problem as long as interest rate changes occurred infrequently, and in small increments. However, the volatility of interest rates in the latter part of the 1970s and early 1980s has turned this restrictive system of interest rate limitations into a hangman's noose around the neck of the housing and mortgage finance industries.

The market forces of supply and demand, together with the national linkage of all local mortgage markets, ensure that no single lender or group of lenders in any locality or region can demand and receive mortgage interest rates above the market rate.

Congress recognized this and preempted state mortgage usury ceilings in the Depository Institutions Deregulation and Monetary Control Act of 1980. Then, after seeing how the market reacted to the lifting of usury ceilings, last year, Congress removed the requirement that FHA-insured mortgages be subject to administered interest rates.

In enacting Section 404 of the "Housing and Urban-Rural Recovery Act of 1983," Congress freed the FHA program to compete with the conventional market in tailoring interest rate and discount point combinations to fit the needs of individual borrowers. Early observations of the impact of the freely negotiated rate indicate that the market impact has been favorable, but the experience since the November 30, 1983 effective date has not been adequate to quantify the benefits.

Now that Congress has freed the FHA rate, it should free the VA rate as well. All the reasons and factors that justified freeing the FHA rate apply as well to freeing the VA rate. The fact that the VA program remains as the only portion of the market with an administratively set maximum interest rate provides an additional reason for removing administered interest ceilings from the VA program.

If, as history would indicate likely, the VA does not keep the maximum interest rate at or above the current market rate, the market will require builders and other sellers to pay substantial discounts to provide market yield. This condition formerly was true with both the FHA and the VA portion of the market, and builders and other sellers were willing to set prices somewhat higher, or to forgo some profit, in order to fund the financing costs represented by discount points. In the first three quarters of 1983, VA-guaranteed lending constituted approximately 9 percent of the market for existing housing and 11 percent of the new home purchase market. It would seem unlikely that builders and other sellers will continue to risk sales by setting their prices high enough to include the payment of financing costs only for VA program buyers, or be willing to absorb a profit loss when the financing chosen by most potential buyers does not require it.

ADJUSTABLE RATE MORTGAGE

During the past year, adjustable rate mortgages (ARMs) have become accepted by borrowers in the conventional mortgage market. FHA is expected to expand its insurance program to include ARMs within the next few months. MBA urges that the VA be authorized to include ARMs in the home loan guaranty program.

Whatever may have been the case previously, ARMs are no longer an untested and unknown quantity. Approximately 53 percent of new conventional mortgages originated in the last quarter of 1983 were ARMs. With better borrower understanding and limits, or caps, on payment increases defined in the mortgage, ARMs have proven an effective instrument for providing homeownership to individuals whose current economic situation would not otherwise provide it.

FORECLOSURE RELIEF

In addition to the operation of the VA home loan guaranty program, this Committee has expressed a concern about the current situation with respect to delinquencies and foreclosures under the loan guaranty program. S 1922, the "Veterans' Housing Foreclosure Assistance Act of 1983," introduced by Senator Specter would authorize the VA Administrator to provide financial assistance to veteran homeowners experiencing difficulty with respect to their guaranteed mortgage loans. The bill provides assistance to temporarily unemployed veteran homeowners who are at least six months delinquent in mortgage payments and who have a reasonable prospect of being able to resume full payments within six months after receiving assistance. The assistance would not exceed $8,400 for any one veteran. The veteran must occupy the dwelling as his or her home, and the unemployment or substantial reduction in household income must be through no fault on the veteran's part. The assistance would be in the form of an advance made to the mortgage holder and applied by the holder, first to the amount past due as of the date of the advance, with any remaining amount to be paid on future payments as they become due.

The advances would constitute an interest-bearing debt from the veteran to the U.S. and would be secured by a lien on the property. They would have to be repaid within 48 months after the advance is made. The VA Administrator may require partial payments on the mortgage. If the veteran defaults after having received all eligible advances, the lender may proceed with foreclosure of the mortgage. The program would terminate at the end of two years.

Before addressing the provisions of S 1922, MBA would like to discuss the background of the current default, delinquency, and foreclosure problems and to share with the Committee current industry practices addressing these problems.

The Current Economic Situation

The Nation's economy, in 1981 and 1982, endured the longest, and in many respects the deepest recession since the Great Depression. One of the most dramatic effects of the prolonged economic downturn was an unemployment rate of 10.8 percent in the fourth quarter of 1982, the highest level since before World War II.

The economy resounded strongly in 1983 as the Nation moved into an expansionary cycle. Unemployment had dropped to 8.1 percent by December of 1983. Capacity utilization was

79.4 percent in December of 1983, the highest rate since late 1981. Real Gross National Product (GNP) grew at 4½ percent annual rate in the fourth quarter of 1983 and inflation—as measured by the GNP price deflator — grew at a modest 3.9 percent rate.

Mortgage delinquencies, as reported by the National Delinquency Survey, peaked in the first quarter of 1983 at 5.84 percent of mortgage loans outstanding and had dropped 58 basis points to 5.26 percent by the third quarter. The third quarter survey is the most recent report available. Although preliminary estimates for the fourth quarter report indicate a possible slight uptick in delinquency rates, it is anticipated that this will prove to be a minor adjustment (Exhibit 8).

Based upon this evidence, MBA believes that national delinquency and foreclosure rates will not become significantly worse during the current economic cycle.

Historical experience has shown that the best medicine for delinquent mortgage payments is a strong economy. A primary factor in ensuring long-lasting economic recovery is a determined effort on the part of Congress and the Administration to reduce the massive budget deficits that now hang over us. Federal deficit financing of the kind projected for 1984 through 1988 in the proposed FY 1984 Budget is the chief threat to the kind of sustained economic growth that is necessary to alleviate unemployment, increase incomes, and ease consumer debt burdens generally. U.S. Government deficit spending crowds out private spending and consequent Treasury borrowing required to pay for these deficits crowds out private borrowers in the capital markets and puts upward pressure on interest rates. The last thing that America needs is a repeat of the 1980-1981 experience when rising interest rates choked off an incipient economic recovery. We strongly urge the Congress to tackle the difficult problems of the Federal deficit and to reduce future deficits significantly (Exhibit 9).

It is also important to point out that despite the increase in delinquencies, our members, as well as the other major mortgage loan servicers, are doing everything that they can to prevent foreclosures. Mortgage lenders truly are exercising voluntary forebearance and are counseling and working with delinquent homeowners in order to keep them in their homes, while at the same time ensuring that contractual obligations to mortgage investors are preserved.

Ironically, the fact that lenders are forebearing frequently results in an increase in the delinquency statistics, because loans are held in delinquency status for longer time-periods, as lenders attempt to continue working with responsible borrowers rather than completing the foreclosure. A factor leading to an increase in the inventory of loans in the process of foreclosure is the rise in personal bankruptcy filings, the effect of which is to impose an automatic stay on foreclosure proceedings. In this light, the higher foreclosures in process do not necessarily represent a worsening of the problem. Also, it should be pointed out that some portion of the loans currently delinquent and in the process of foreclosure are mortgages on investment properties, rather than owner-occupied properties. Unfortunately, it is not possible to separate investment versus owner-occupied properties in the available statistics. This does suggest, however, that not every mortgage problem represents a threat to a family's ability to retain its shelter.

Emergency Foreclosure Assistance Programs

Foreclosure is but a symptom of the overriding cause—sustained high unemployment. Because unemployment has been decreasing, and because of the dramatic improvement in interest rates and real estate activity, MBA believes that the delinquency rate may be at or near its peak. As a result, we question whether or not there is a need for emergency foreclosure relief at this time, as it could address a problem that we believe will soon be on the wane.

This does not mean that we are not concerned about the difficulties and hardships facing those economically distressed families who are having trouble keeping their mortgage payments current. Lenders are forebearing whenever possible, particularly where the default is beyond the control of the borrower. For a variety of reasons, no reputable lender wants to take back a property. Foreclosures create bad publicity in the community; are administratively costly; and frequently require substantial investment by lenders in securing properties prior to sale or transfer to an insurer or guarantor, such as VA. Not only is foreclosure costly, but, in the case where mortgage bankers are forced to foreclose on a loan, servicing fees—the bread and butter income for a mortgage banking operation—are lost.

Thus, lenders attempt to forebear wherever a borrower's attitude is cooperative, and the borrower has previously been making payments in a responsible manner. Lenders are willing to reschedule payments, stretch payments out, and work out problems whenever practical, if there is a possibility that the underlying problem can be solved over time. The bulk of loans in default, in fact, are not ultimately foreclosed upon, because the borrower either corrects the default or a forebearance plan is worked out between the borrower and the lender designed eventually to bring the loan current. Lenders have been extremely active in counseling borrowers, and also encourage borrowers to seek outside counseling, for example, from credit bureaus and from state or county consumer affairs departments.

Nonetheless, it is prohibitively expensive for a lender to forebear for an extended period of time, so that it eventually becomes necessary to initiate foreclosure proceedings, where it does not appear that a borrower can benefit from forebearance. Further, when lenders do not receive a borrower's payment, investors often require the lender either to repurchase the loan or to forward payments whether or not they have been received. Lenders prefer to forebear for the reasons noted, but in the final analysis, lenders cannot afford to advance funds to investors to cover unpaid loans for extended periods. This is particularly true where lenders are servicing large numbers of loans in localities experiencing high unemployment. Thus, there is a limit to lenders' ability to forebear, but it is a limit that lenders attempt to avoid whenever possible.

In sum, MBA believes that the problem of mortgage delinquencies and foreclosures is continuing to diminish and, therefore, we question the need for emergency relief at this time. Further, if emergency relief is provide by the Congress, we would strongly urge that the funding for such relief be provided by reductions in other spending programs.

PROVISIONS OF S 1922

The following detailed observations are submitted in connection with the provisions of S 1922.

Delinquency Periods Provided in the Bill

Section 1816A(2)(B) provides that assistance will be available for veteran homeowners who are at least six months delinquent in the payment on the veteran's primary loan. The bill does not indicate whether the six months called for in the section must pass before a request for assistance can be made or whether the request for assistance may be made during the period of delinquency. A three-month delinquency period prior to foreclosure is consistent with general practice and with the guaranty program of the VA. MBA recommends that the bill be amended to refer to a 90 day period of delinquency, and to clairfy that assistance may be sought when the situation indicates it will be needed.

Delinquent Second Mortgages

The assistance program is made available only to veterans who are delinquent on their primary loan, which is defined to include only loans guaranteed pursuant to Section 1810 and Section 1819 of Title 38, U.S. Code. This eliminates the ability of the Administrator to assist the veteran who may be faced with losing his or her home by foreclosure of a second mortgage. There are strong indications that a signficant number of homeowners suffer foreclosure of second mortgages, even though the first mortgage holder is willing to forebear. If the bill is to provide protection for the veteran, delinquent second mortgages should be included.

Ability to Repay

No provision is made for the Administrator to determine whether the recipient has a reasonable chance of making repayment of the advances made under the assistance program. Although a finding by the Administrator that the veteran is reasonably able to repay such advances may be implied from Section 1816(A)(d), which requires that the veteran shall agree to repay the advance no later than 48 months after the advance is made, the requirement that the Administrator find a reasonable likelihood of repayment of the advance should be made explicit.

In this connection, the bill should provide that the assistance should not exceed the veteran's equity in the house or the VA guaranteed amount, unless the Administrator finds that extraordinary circumstances warrant it on a case-by-case basis.

Payments Covered

Section 1816A(b)(1) authorizes the primary loan holder to apply the advance to past due amounts and to future payments which are unpaid. Provision should be made to cover payments due, but not past due, on the date the advance is made to the holder. Also, the bill should clarify that all aspects of payments should be covered, including special assessments, late charges, advances to escrows, lenders' expenses in connection with payments or repayments, and ground rents.

Debt to United States

Section 1816A(b)(1) provides that the amount of the advance to the holder of the primary loan becomes a loan to the veteran, whether the veteran receives the full amount or not. Clearly, the veteran should be liable to the United States only to the extent that the veteran receives benefit by payments on the loan. Also, the relationship between the holder who receives the advance and the United States is undefined, and no provision is made for the repayment of that portion of the advance which is not applied to the mortgage if the veteran obtains employment.

Priority of Lien

Section 1816A(b)(2) establishes that all payments under the bill may be secured by a lien on the property involved. However, the bill does not address the relationship between the Administrator's lien and any other lien on the property, including the primary loan. Whether the lien would require recordation to be effective is also not addressed. To sustain an orderly mortgage market and to encourage lenders to aid mortgagors in applying for assistance, the assistance should result in a lien junior or subordinate to all mortgages existing at the time when assistance payments are first made. If the granting of assistance were to result in lenders' security being jeopardized by an intervening lien, they would be discouraged from participating in the program.

Program Funding

In closing, MBA believes that the fundamental mortgage delinquency problem is one of unemployment, particularly structural unemployment in industries that may never recover from the present recession. Reducing the Federal deficit and stabilizing interest rates to spur industrial output and reemployment of those out of work will do far more good than a temporary assistance program that does not address the underlying problem.

MBA appreciates the opportunity to appear before the Committee today and would be happy to furnish any additional information if needed.

EXHIBIT 1

VA DOWNPAYMENT CHARACTERISTICS

1983	Number Closed	100% Loans	100% Loans as a Percentage of All Loans Closed
January	9,037	5,186	57%
February	12,689	7,161	56%
March	15,378	8,906	58%
April	13,732	7,830	57%
May	21,863	12,882	59%
June	17,758	10,522	59%
July	15,236	9,018	59%
August	26,608	16,920	64%

1982	Number Closed	100% Loans	100% Loans as a Percentage of All Loans Closed
January	5,472	3,385	62%
February	6,454	3,969	62%
March	6,803	4,236	62%
April	6,074	3,762	62%
May	5,413	3,357	62%
June	7,406	4,431	60%
July	7,257	4,217	58%
August	8,792	5,002	57%
September	11,954	6,457	54%
October	6,088	3,306	54%
November	7,126	3,741	52%
December	8,188	4,422	54%

1981	Number Closed	100% Loans	100% Loans as a Percentage of All Loans Closed
January	16,893	11,945	71%
February	12,799	8,833	69%
March	12,063	8,251	68%
April	13,019	8,875	68%
May	10,193	6,868	67%
June	15,130	10,116	67%
July	11,156	7,105	64%
August	11,677	7,268	62%
September	10,943	6,814	62%
October	8,239	5,167	63%
November	7,759	4,795	62%
December	6,156	3,721	60%

EXHIBIT 2

VA Loans as a Percentage of Total Originations

	$Volume (millions)	Percent
1975	8,836	11.3%
1976	10,426	9.2%
1977	14,882	9.2%
1978	16,026	8.6%
1979	18,838	10.0%
1980	12,102	9.0%
1981	7,509	7.7%
1982	7,687	7.9%
1983 1st quarter	4,473	11.6%
2nd quarter	5,185	9.9%
3rd quarter	5,025	8.7%

Source: Department of Housing and Urban Development's Survey of Mortgage Lending

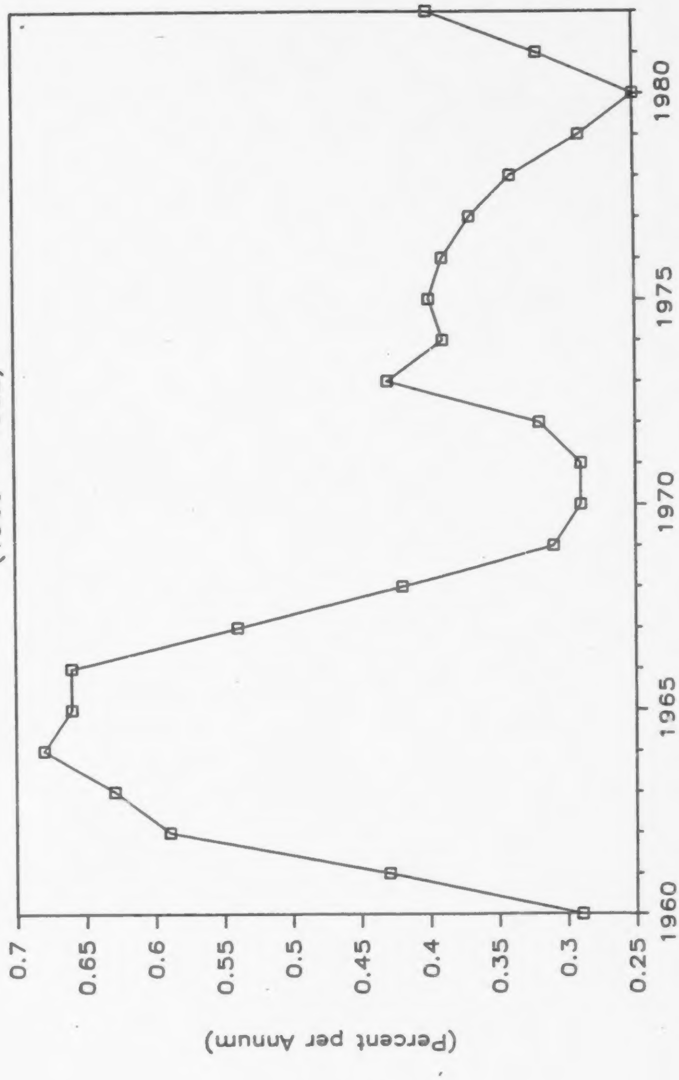
Prepared by MBA Economics Department, February 1984

EXHIBIT 3

CHART I

VA FORECLOSURE RATE

(1960 – 1982)

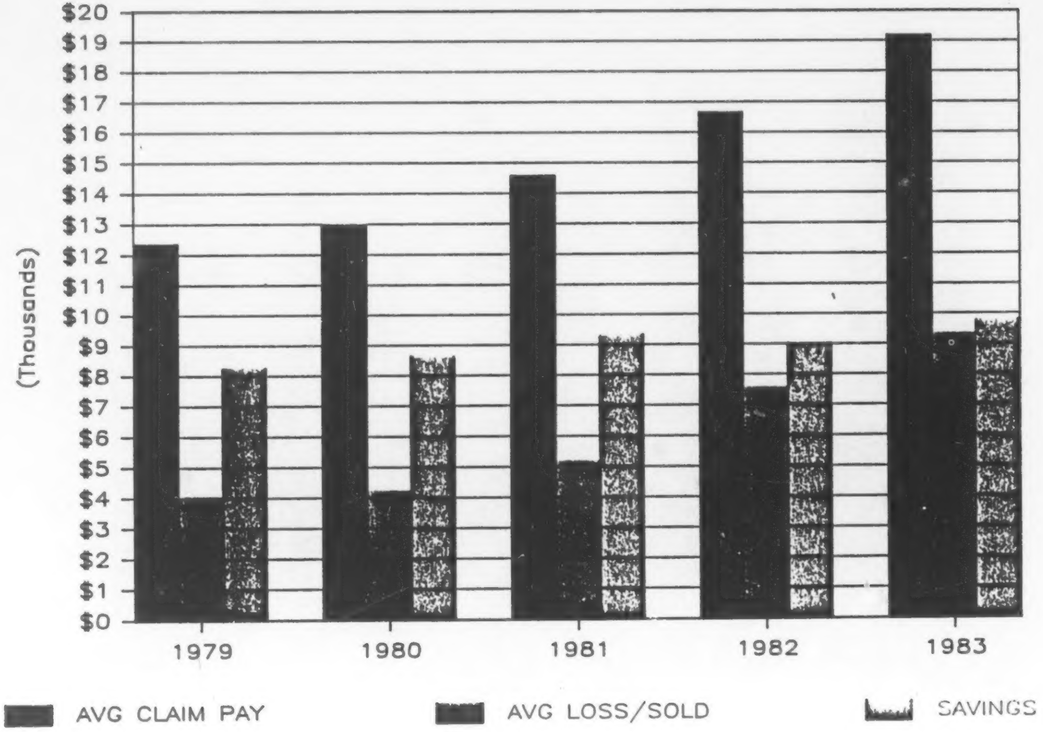


Source: Veterans Administration
Prepared by MBA Economics Department, February 1984

EXHIBIT 4

CHART II

VA ACQUISITION ANALYSIS



Source: Veterans Administration
Prepared by MBA Economics Department, February 1984

EXHIBIT 5

Mortgage Bankers VA Loan Originations As a Percentage of Total VA Originations

	Mortgage Bankers $ Volume of VA Originations (millions)	Percent of Total VA Originations
1975	6,326	71.6%
1976	7,381	70.8%
1977	11,624	78.1%
1978	12,372	77.2%
1979	15,506	82.3%
1980	9,567	79.0%
1981	6,044	80.5%
1982	6,158	80.1%
1983 1st quarter	3,470	77.6%
2nd quarter	3,896	75.1%
3rd quarter	3,714	73.9%

Source: Department of Housing and Urban Development, Survey of Mortgage Lending
Prepared by MBA Economics Department, February 1984

EXHIBIT 6

	Maximum VA Guaranty	%	Median Sales Prices					
			Existing Homes	%	New Homes	%	All_1/ Homes	%
1974	17,500	NA	32,000	NA	35,900	NA	35,175	NA
1975	17,500	0.0	35,300	10.3	39,300	9.5	38,576	9.7
1976	17,500	0.0	38,100	19.1	44,200	23.1	43,139	22.6
1977	17,500	0.0	42,900	34.1	48,800	35.9	47,720	35.7
1978	25,000	42.9	48,700	52.2	55,700	55.2	54,510	55.0
1979	25,000	42.9	55,700	74.1	62,900	75.2	61,777	75.6
1980	27,500	57.1	62,200	94.4	64,600	79.9	64,228	82.6
1981	27,500	57.1	66,400	107.5	68,900	91.9	68,518	94.8
1982	27,500	57.1	67,800	111.9	69,300	93.0	69,044	96.3
1983	27,500	57.1	70,300	119.7	75,100	109.2	74,202	111.0

	Maximum VA Guaranty	Price Adjusted VA Guaranty			RATIO: Price Adjusted Guaranty To Actual Guaranty		
		For Existing Homes	For New Homes	All_1/ Homes	For Existing Homes	For New Homes	All_1/ Homes
1974	17,500	17,500	17,500	17,500	1.00	1.00	1.00
1975	17,500	19,305	19,157	19,192	1.10	1.09	1.10
1976	17,500	20,836	21,546	21,462	1.19	1.23	1.23
1977	17,500	23,461	23,788	23,741	1.34	1.36	1.36
1978	25,000	26,633	27,152	27,119	1.07	1.09	1.08
1979	25,000	30,461	30,662	30,735	1.22	1.23	1.23
1980	27,500	34,016	31,490	31,954	1.24	1.15	1.16
1981	27,500	36,313	33,386	34,089	1.32	1.22	1.24
1982	27,500	37,078	33,781	34,350	1.35	1.23	1.25
1983	27,500	38,445	36,609	36,916	1.40	1.33	1.34

Source: U.S. Department of Commerce, National Assn. of Realtors.
% = percent change from 1974 for column to immediate left.
_1/ Weighted average of sales prices of new and existing single family homes sold.
Prepared by MBA Economics Department, February 1984

EXHIBIT 7

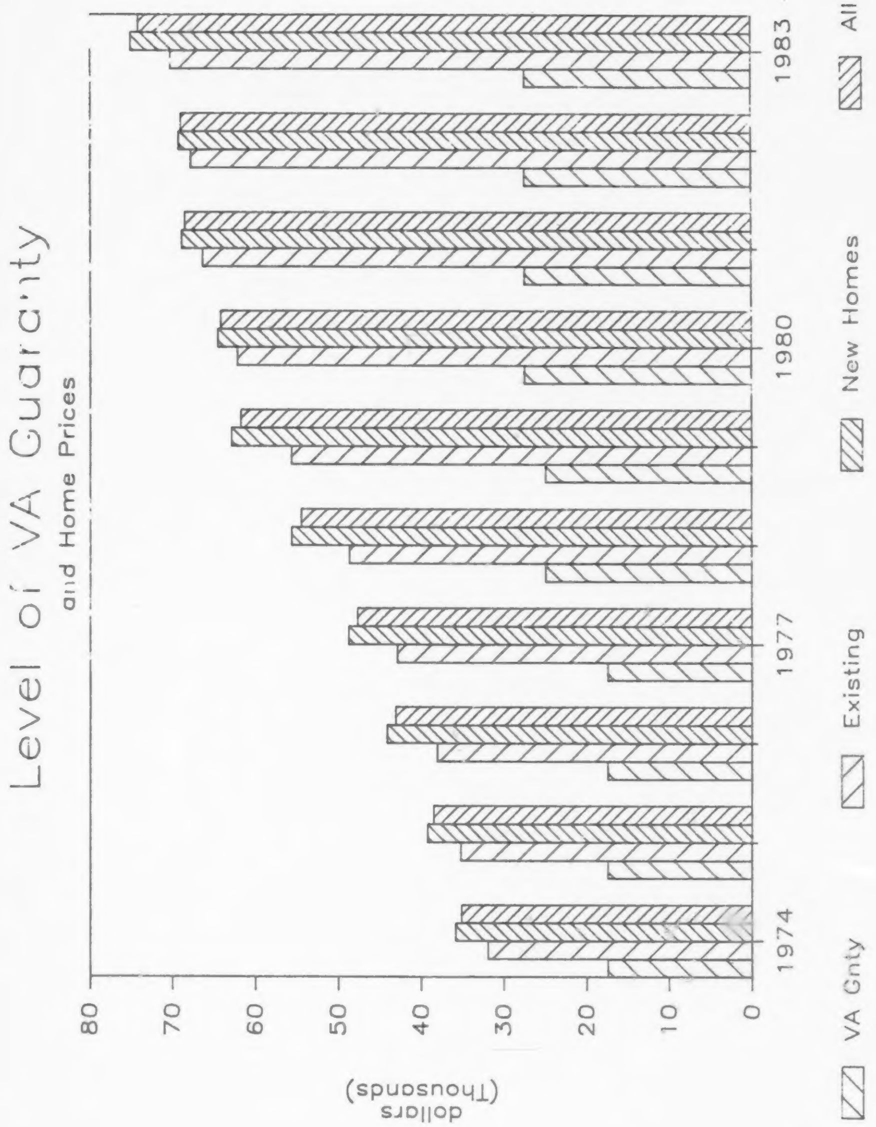

Level of VA Guaranty
and Home Prices
dollars
(Thousands)
80
70
60
50
40
30
20
10
0
1974
1977
1980
1983
VA Gnty
Existing
New Homes
All

EXHIBIT 8
Page 1

National Delinquency Survey

Prepared by the MBA Economics Department
November 16, 1983

Mortgage Bankers Association of America

1125 FIFTEENTH STREET, N.W. • WASHINGTON, D.C. 20005

DATA FOR SEPTEMBER 30, 1983
AND FOR 3rd QUARTER 1983

The national delinquency rate for mortgage loans secured by one-to-four unit residential property declined to 5.26 percent in the third quarter of 1983, down from 5.63 percent in the second quarter. This decline is the second in as many quarters, reflecting a 58 basis point drop from the record high point recorded in the first quarter of this year. The third quarter measure is the lowest since the fourth quarter of 1981 when it reached 5.18 percent. The mortgage delinquency rate for conventional loans showed the greatest decline, dropping 31 basis points to 3.60 percent in the third quarter from 3.91 percent in the second. The VA-guaranteed loan delinquency rate fell to 5.78 percent in the third quarter from 6.08 percent in the second, and the percentage of late FHA-insured loans declined to 6.83 percent from 7.01 percent over the same period.

Based on the number of payments past due, the component of delinquencies demonstrating the largest decline was the one-month late category. There was a drop of 29 basis points to 3.56 percent in the percentage of loans with payments 30 days late, down from 3.85 percent in the second quarter. The percentage of loans that were two payments in arrears also declined, down a modest 8 basis points, to 0.87 percent in the third quarter. The delinquency rate on loans past due 90 days or more was unchanged at 0.83 percent.

TEXT NUMBERS ARE SEASONALLY ADJUSTED UNLESS OTHERWISE NOTED.

In addition to the good news embodied in the improving delinquency rates, foreclosure statistics also demonstrated a cause for optimism in the third quarter. Overall, the percentage of residential mortgage loans that were placed in foreclosure in the third quarter declined slightly over the period, to 0.22 percent, down from 0.23 percent in the second quarter. All of the improvements in the foreclosure measure occurred in the government backed loan categories, as the rate of new foreclosures started on conventional loans remained steady at 0.16 percent in the third quarter. New foreclosures of FHA-insured loans declined 3 basis points in the third period to 0.26 percent, and the same rate on VA-guaranteed loans dropped 2 basis points to 0.25 percent. The percentage of loans in the foreclosure process, which is not seasonally adjusted, was unchanged in the third quarter at 0.66 percent.

On a regional basis, delinquency rates in the third quarter were generally below levels of a year ago. The regional data are not seasonally adjusted. Of the four census regions, three areas show declines over the latest four quarter period while one area reported a slight increase. The largest decline in mortgage delinquencies occurred in the Northeast region, where the rate fell 48 basis points since the third quarter of 1982 to 5.66 percent. In the North Central states, the mortgage delinquency ratio dropped 39 basis points to 6.46 percent, and the West recorded a smaller decline of 15 basis points to 5.24 percent past due in the third quarter this year. The South, which ended the third quarter 1983 with a delinquency rate of 5.07 percent (the lowest of the four), showed a modest increase in its delinquency rate of 8 basis points over a year earlier.

As the economy continues to grow, mortgage delinquency and foreclosure rates will decline through 1984. The economic recovery has achieved a solid footing with both consumer and business confidence indexes trending upwards. Industrial output and capacity utilization both have improved substantially over the past year, with real economic growth in the 8 percent range for the past two quarters. Labor productivity is growing, corporate profits are up 30 percent from a year ago, and retail sales are strong. These factors signal continued declines in unemployment and rising incomes, both of which will lead to continued improvement in the mortgage delinquency and foreclosure statistics.

DELINQUENCY RATES OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS
Seasonally Adjusted

END OF QTR	ALL LOANS					CONVENTIONAL LOANS					VA LOANS					ALL FHA LOANS				
	PERCENT OF LOANS																			
	Total Past Due	Installments Past Due			Fcls started	Total Past Due	Installments Past Due			Fcls * started	Total Past Due	Installments Past Due			Fcls started	Total Past Due	Installments Past Due			Fcls started
		30 Days	60 Days	90 Days or more			30 Days	60 Days	90 Days or more			30 Days	60 Days	90 Days or more			30 Days	60 Days	90 Days or more	
1981																				
1st	5.28	3.77	0.86	0.65	0.16	3.07	2.27	0.48	0.32	0.09	5.81	4.09	0.96	0.76	0.18	7.02	5.01	1.13	0.88	0.20
2nd	5.26	3.72	0.89	0.65	0.17	3.24	2.35	0.55	0.34	0.11	5.67	3.95	0.96	0.76	0.19	6.77	[illegible]	1.16	0.81	0.22
3rd	5.26	3.73	0.89	0.64	0.15	3.43	2.50	0.58	0.35	0.11	5.61	3.90	0.97	0.74	0.17	6.82	4.83	1.14	0.85	0.20
4th	5.18	3.67	0.87	0.64	0.16	3.31	2.39	0.57	0.35	0.11	5.60	3.89	0.97	0.74	0.18	6.61	[illegible]	1.09	0.83	0.21
1982																				
1st	5.35	3.75	0.90	0.70	0.20	3.52	2.52	0.58	0.42	0.13	5.77	4.00	0.98	0.79	0.22	6.92	[illegible]	1.14	0.94	0.25
2nd	5.56	3.83	0.97	0.76	0.20	3.66	2.55	0.65	0.48	0.13	5.99	4.08	1.05	0.86	0.22	7.07	[illegible]	1.24	0.94	0.25
3rd	5.48	3.76	0.94	0.78	0.22	3.79	2.61	0.66	0.52	0.14	5.86	3.95	1.02	0.89	0.25	7.07	[illegible]	1.20	0.98	0.29
4th	5.70	3.91	0.96	0.83	0.22	3.81	2.63	0.65	0.53	0.14	6.18	4.19	1.07	0.92	0.23	7.14	[illegible]	1.17	1.07	0.29
1983																				
1st	5.84	4.01	0.99	0.84	0.20	4.27	2.90	0.72	0.65	0.13	6.24	4.31	1.04	0.89	0.23	7.27	[illegible]	1.20	1.04	0.25
2nd	5.63	3.85	0.95	0.83	0.23	3.91	2.67	0.66	0.58	0.16	6.08	4.11	1.04	0.93	0.27	7.01	[illegible]	1.18	1.00	0.29
3rd	5.26	3.56	0.87	0.83	0.22	3.60	2.45	0.61	0.54	0.16	5.78	3.84	0.98	0.96	0.25	6.83	[illegible]	1.12	1.06	0.26

MORTGAGE BANKERS ASSOCIATION OF AMERICA

EXHIBIT 8
Page 2

STATE, AREA AND CENSUS REGION	ALL LOANS							CONVENTIONAL LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	94,759	3.63	1.79	1.13	0.71	0.26	0.07	72,864	3.34	1.42	1.23	0.69	0.24	0.06
MAINE	27,937	4.20	3.03	0.67	0.50	0.39	0.08	22,121	3.65	2.54	0.63	0.48	0.35	0.07
MASSACHUSETTS	76,386	3.63	2.67	0.56	0.40	0.20	0.06	46,693	2.16	1.64	0.33	0.19	0.11	0.04
NEW HAMPSHIRE	16,407	4.23	2.97	0.78	0.48	0.09	0.10	10,566	3.06	2.10	0.56	0.40	0.02	0.07
RHODE ISLAND	1,455	4.54	3.02	0.76	0.76	0.07	0.07	453	1.54	0.88	0.44	0.22	0.00	0.00
VERMONT	1,023	5.57	3.23	1.17	1.17	0.39	0.10	89	5.62	3.37	2.25	0.00	0.00	0.00
NEW ENGLAND	**217,967**	**3.76**	**2.36**	**0.84**	**0.56**	**0.24**	**0.07**	**152,796**	**3.00**	**1.89**	**0.82**	**0.49**	**0.20**	**0.05**
NEW JERSEY	251,678	5.42	3.54	1.05	0.83	0.93	0.23	144,910	3.18	2.22	0.66	0.30	0.33	0.09
NEW YORK	419,823	6.35	4.84	0.97	0.54	0.31	0.07	301,112	5.33	4.13	0.80	0.40	0.20	0.05
PENNSYLVANIA	296,767	6.30	4.31	0.97	1.02	0.66	0.25	166,089	4.14	3.04	0.50	0.60	0.29	0.11
MID ATLANTIC	**968,268**	**6.09**	**4.34**	**0.99**	**0.76**	**0.58**	**0.16**	**612,111**	**4.49**	**3.38**	**0.68**	**0.43**	**0.25**	**0.07**
ILLINOIS	221,000	8.78	5.35	1.40	2.03	1.45	0.31	62,702	2.97	1.96	0.43	0.56	0.47	0.10
INDIANA	189,741	6.36	4.39	1.03	0.94	1.09	0.28	62,421	3.38	2.32	0.56	0.48	0.37	0.06
MICHIGAN	431,225	6.62	4.37	1.12	1.13	0.69	0.27	225,761	3.76	2.62	0.62	0.52	0.21	0.17
OHIO	250,284	7.39	4.81	1.20	1.38	1.37	0.22	86,342	4.94	3.23	0.80	0.91	0.78	0.18
WISCONSIN	68,696	6.18	3.54	1.09	1.55	1.26	0.32	27,413	4.12	2.51	0.73	0.88	0.54	0.20
E.N. CENTRAL	**1,160,946**	**7.12**	**4.50**	**1.17**	**1.35**	**1.08**	**0.27**	**464,639**	**3.85**	**2.60**	**0.63**	**0.62**	**0.39**	**0.15**
IOWA	56,408	4.79	2.69	0.73	1.37	0.96	0.12	25,154	2.94	1.73	0.52	0.69	0.17	0.08
KANSAS	46,439	5.14	3.28	0.96	0.90	0.63	0.21	12,152	3.77	2.23	0.68	0.86	0.95	0.24
MINNESOTA	169,656	4.38	2.78	0.73	0.87	0.57	0.07	51,655	3.15	1.98	0.54	0.63	0.55	0.09
MISSOURI	97,406	5.34	3.73	0.93	0.68	0.44	0.18	13,233	2.64	1.75	0.41	0.48	0.26	0.11
NEBRASKA	41,882	4.03	2.72	0.81	0.50	0.70	0.19	23,802	2.82	1.90	0.66	0.26	0.69	0.18
NORTH DAKOTA	3,230	4.96	2.88	0.53	1.55	1.42	0.34	463	3.02	2.16	0.43	0.43	1.51	0.22
SOUTH DAKOTA	12,513	2.41	1.49	0.32	0.60	0.56	0.12	3,395	0.89	0.53	0.15	0.21	0.24	0.15
W.N. CENTRAL	**427,534**	**4.64**	**3.00**	**0.79**	**0.85**	**0.64**	**0.13**	**129,854**	**3.00**	**1.88**	**0.55**	**0.57**	**0.50**	**0.12**
DELAWARE	36,090	3.41	2.50	0.52	0.39	0.19	0.13	21,099	1.83	1.36	0.29	0.18	0.07	0.07
D C	12,433	7.30	5.08	1.34	0.88	1.26	0.22	4,804	3.48	2.58	0.50	0.40	0.42	0.21
FLORIDA	533,752	4.78	3.25	0.74	0.79	0.56	0.23	223,571	2.59	1.63	0.35	0.61	0.57	0.27
GEORGIA	208,350	5.82	4.11	1.01	0.70	0.44	0.25	45,508	2.87	2.03	0.51	0.33	0.25	0.13
MARYLAND	149,915	4.42	3.21	0.72	0.49	0.46	0.12	58,027	2.25	1.72	0.32	0.21	0.22	0.10
N C	179,189	4.52	3.41	0.66	0.45	0.26	0.14	37,648	2.15	1.68	0.25	0.22	0.12	0.11
S C	100,260	6.79	4.87	1.10	0.82	0.60	0.31	12,499	2.58	2.01	0.29	0.28	0.30	0.17
VIRGINIA	251,652	3.95	3.01	0.57	0.37	0.20	0.07	67,190	2.84	2.20	0.38	0.26	0.08	0.06
W. VIRGINIA	8,740	5.09	3.39	0.94	0.76	0.22	0.07	3,134	3.54	2.30	0.57	0.67	0.06	0.06
S. ATLANTIC	**1,480,381**	**4.85**	**3.46**	**0.76**	**0.63**	**0.43**	**0.19**	**473,480**	**2.55**	**1.78**	**0.35**	**0.42**	**0.36**	**0.18**
ALABAMA	123,210	6.46	4.44	1.09	0.93	0.56	0.21	19,835	3.67	2.81	0.52	0.34	0.30	0.11
KENTUCKY	53,877	5.28	3.60	0.85	0.83	0.80	0.10	6,016	2.80	1.89	0.48	0.43	0.71	0.17
MISSISSIPPI	67,087	5.96	4.07	0.94	0.95	0.33	0.18	20,099	3.44	2.62	0.40	0.42	0.17	0.11
TENNESSEE	145,283	6.70	4.56	1.08	1.06	0.45	0.25	35,748	3.32	2.53	0.43	0.36	0.12	0.13
E.S. CENTRAL	**389,457**	**6.30**	**4.30**	**1.03**	**0.97**	**0.51**	**0.20**	**81,698**	**3.40**	**2.58**	**0.45**	**0.37**	**0.22**	**0.12**
ARKANSAS	27,208	5.48	3.85	0.78	0.85	0.39	0.17	3,796	2.79	2.05	0.24	0.50	0.24	0.11
LOUISIANA	151,006	4.50	3.33	0.69	0.48	0.24	0.15	46,952	2.66	2.02	0.36	0.28	0.19	0.12
OKLAHOMA	153,636	4.93	3.50	0.76	0.67	0.51	0.22	33,981	3.69	2.34	0.58	0.77	0.61	0.28
TEXAS	660,504	5.01	3.39	0.86	0.76	0.29	0.18	172,367	2.95	2.05	0.46	0.44	0.29	0.16
W.S. CENTRAL	**992,354**	**4.93**	**3.41**	**0.82**	**0.70**	**0.32**	**0.18**	**257,096**	**2.90**	**2.08**	**0.45**	**0.45**	**0.31**	**0.18**
ARIZONA	296,357	5.13	3.53	0.89	0.71	0.63	0.21	70,591	3.17	2.07	0.60	0.50	0.59	0.17
COLORADO	265,510	4.49	2.94	0.73	0.82	0.52	0.14	96,878	2.85	1.87	0.47	0.51	0.31	0.10
IDAHO	60,778	5.41	3.51	0.99	0.91	0.73	0.25	29,732	4.62	3.05	0.83	0.74	0.51	0.15
MONTANA	17,356	5.21	3.20	0.81	1.20	0.86	0.24	3,372	5.13	3.00	0.56	1.57	0.27	0.18
NEVADA	73,333	7.47	4.79	1.24	1.44	1.34	0.45	11,519	4.61	2.89	0.85	0.87	1.10	0.69
NEW MEXICO	43,225	4.09	2.88	0.68	0.53	0.23	0.07	10,506	4.51	3.06	0.75	0.70	0.50	0.10
UTAH	81,449	6.72	4.42	1.16	1.14	1.00	0.29	25,483	5.32	3.57	0.78	0.97	0.94	0.29
WYOMING	11,820	7.72	4.27	1.78	1.67	1.42	0.74	2,683	5.70	2.87	0.97	1.86	1.45	0.22
MOUNTAIN	**849,828**	**5.29**	**3.51**	**0.90**	**0.88**	**0.70**	**0.22**	**250,764**	**3.61**	**2.36**	**0.62**	**0.63**	**0.53**	**0.17**
ALASKA	15,197	2.96	2.14	0.50	0.32	0.13	0.04	8,688	2.78	1.97	0.46	0.35	0.10	0.03
CALIFORNIA	1,217,703	5.62	3.66	1.03	0.93	1.02	0.20	501,548	4.29	2.74	0.86	0.69	0.93	0.17
HAWAII	75,870	3.79	2.46	0.63	0.70	0.66	0.13	48,673	3.46	2.15	0.57	0.74	0.63	0.15
OREGON	78,721	4.65	3.19	0.72	0.74	1.06	0.38	41,782	4.01	2.73	0.60	0.68	0.84	0.48
WASHINGTON	316,816	4.27	2.85	0.71	0.71	0.76	0.17	152,028	3.02	2.07	0.49	0.46	0.45	0.12
PACIFIC	**1,704,307**	**5.21**	**3.42**	**0.93**	**0.86**	**0.95**	**0.20**	**752,719**	**3.94**	**2.55**	**0.75**	**0.64**	**0.80**	**0.17**
PUERTO RICO	133,141	8.55	5.84	1.55	1.16	1.17	0.68	26,362	9.41	6.09	1.75	1.57	1.74	1.23
NORTHEAST	**1,186,235**	**5.66**	**3.98**	**0.96**	**0.72**	**0.52**	**0.15**	**764,897**	**4.19**	**3.04**	**0.71**	**0.44**	**0.24**	**0.07**
NORTH CENTRAL	**1,588,480**	**6.46**	**4.17**	**1.07**	**1.22**	**0.96**	**0.24**	**594,493**	**3.66**	**2.44**	**0.61**	**0.61**	**0.42**	**0.15**
SOUTH	**2,862,192**	**5.07**	**3.55**	**0.82**	**0.70**	**0.40**	**0.19**	**812,274**	**2.77**	**1.95**	**0.39**	**0.43**	**0.33**	**0.17**
WEST	**2,554,135**	**5.24**	**3.45**	**0.92**	**0.87**	**0.87**	**0.21**	**1,003,483**	**3.87**	**2.51**	**0.72**	**0.64**	**0.74**	**0.17**
U.S. TOTAL	**9,000,730**	**5.48**	**3.72**	**0.92**	**0.84**	**0.66**	**0.20**	**3,493,122**	**3.66**	**2.51**	**0.62**	**0.53**	**0.44**	**0.15**
U.S. TOTAL (S.A.)	*NC*	*5.26*	*3.56*	*0.87*	*0.83*	*NC*	*0.22*	*NC*	*3.60*	*2.45*	*0.61*	*0.54*	*NC*	*0.16*

EXHIBIT 8
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NATIONAL DELINQUENCY SURVEY
OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS

STATE, AREA AND CENSUS REGION	VA LOANS							ALL FHA LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	11,500	4.09	2.80	0.65	0.84	0.35	0.15	10,395	5.12	3.51	0.98	0.63	0.30	0.09
MAINE	3,942	5.38	4.24	0.63	0.51	0.56	0.15	1,874	8.38	6.30	1.28	0.80	0.53	0.06
MASSACHUSETTS	14,286	5.28	3.74	0.88	0.66	0.31	0.10	15,407	6.51	4.80	0.94	0.77	0.36	0.08
NEW HAMPSHIRE	3,824	7.48	5.44	1.33	0.71	0.26	0.18	2,017	4.22	2.88	0.89	0.45	0.15	0.10
RHODE ISLAND	316	9.18	6.01	0.95	2.22	0.32	0.32	686	4.37	3.06	0.87	0.44	0.00	0.00
VERMONT	670	5.51	3.43	1.04	1.04	0.15	0.15	264	5.68	2.65	1.14	1.89	1.14	0.00
NEW ENGLAND	**34,538**	**5.18**	**3.62**	**0.83**	**0.73**	**0.34**	**0.13**	**30,643**	**5.94**	**4.27**	**0.97**	**0.70**	**0.35**	**0.08**
NEW JERSEY	47,237	7.74	4.95	1.34	1.45	1.65	0.40	59,531	9.01	5.62	1.75	1.64	1.80	0.42
NEW YORK	49,711	7.70	5.74	1.30	0.66	0.50	0.11	69,000	9.83	7.30	1.49	1.04	0.69	0.12
PENNSYLVANIA	51,969	9.07	5.62	1.64	1.81	1.30	0.53	78,709	9.01	6.15	1.50	1.36	1.01	0.36
MID ATLANTIC	**148,917**	**8.19**	**5.45**	**1.43**	**1.31**	**1.15**	**0.35**	**207,240**	**9.29**	**6.38**	**1.57**	**1.34**	**1.13**	**0.30**
ILLINOIS	62,766	10.30	5.91	1.64	2.75	1.82	0.45	95,532	11.60	7.21	1.87	2.52	1.84	0.35
INDIANA	56,338	7.64	5.14	1.33	1.17	1.41	0.39	70,982	7.95	5.63	1.17	1.15	1.41	0.36
MICHIGAN	58,299	7.66	4.93	1.34	1.39	0.61	0.33	147,166	10.67	6.82	1.79	1.96	1.36	0.40
OHIO	82,802	8.68	5.52	1.47	1.69	1.75	0.25	81,140	8.66	5.75	1.36	1.55	1.12	0.25
WISCONSIN	15,952	7.05	3.92	1.24	1.89	1.15	0.41	25,331	7.86	4.42	1.38	2.06	2.12	0.38
E.N. CENTRAL	**276,157**	**8.52**	**5.31**	**1.44**	**1.77**	**1.48**	**0.35**	**420,150**	**9.83**	**6.36**	**1.60**	**1.87**	**1.58**	**0.35**
IOWA	14,575	6.68	3.45	0.92	2.31	1.93	0.22	16,679	5.94	3.50	0.88	1.56	1.28	0.10
KANSAS	19,234	5.76	3.73	1.05	0.98	0.73	0.23	15,053	5.45	3.57	1.06	0.82	0.86	0.17
MINNESOTA	50,083	4.99	3.18	0.82	0.99	0.51	0.06	67,918	4.86	3.09	0.81	0.96	0.62	0.06
MISSOURI	31,619	5.05	3.51	0.90	0.64	0.41	0.15	52,554	6.19	4.36	1.08	0.75	0.50	0.22
NEBRASKA	8,017	4.63	3.04	0.85	0.74	0.76	0.20	10,063	6.42	4.42	1.11	0.89	0.70	0.22
NORTH DAKOTA	748	3.61	2.81	0.27	0.53	0.80	0.00	2,019	5.89	3.07	0.64	2.18	1.63	0.50
SOUTH DAKOTA	3,152	2.76	1.84	0.44	0.48	0.35	0.13	5,966	3.10	1.86	0.35	0.89	0.65	0.10
W.N. CENTRAL	**127,428**	**5.23**	**3.33**	**0.88**	**1.02**	**0.69**	**0.14**	**170,252**	**5.47**	**3.60**	**0.92**	**0.95**	**0.69**	**0.14**
DELAWARE	5,681	4.86	3.22	0.92	0.72	0.46	0.26	9,310	6.07	4.65	0.79	0.63	0.28	0.19
D.C.	3,563	9.11	6.06	1.82	1.23	1.60	0.22	4,066	10.26	7.18	1.92	1.16	1.97	0.22
FLORIDA	121,355	5.70	3.87	0.92	0.91	0.52	0.19	186,826	6.78	4.77	1.09	0.92	0.57	0.20
GEORGIA	82,136	6.15	4.31	1.10	0.74	0.38	0.25	80,706	7.16	5.09	1.20	0.87	0.59	0.33
MARYLAND	50,466	5.16	3.71	0.89	0.56	0.49	0.11	41,422	6.58	4.69	1.09	0.80	0.76	0.17
N.C.	79,435	4.79	3.64	0.70	0.45	0.26	0.13	62,106	5.64	4.17	0.87	0.60	0.33	0.17
S.C.	38,893	6.13	4.47	0.97	0.69	0.57	0.29	48,868	8.40	5.92	1.41	1.07	0.70	0.36
VIRGINIA	115,955	3.92	2.95	0.60	0.37	0.21	0.07	68,507	5.10	3.92	0.70	0.48	0.30	0.09
W. VIRGINIA	2,954	6.37	4.10	1.25	1.02	0.34	0.03	2,652	5.47	3.88	1.02	0.57	0.26	0.11
S. ATLANTIC	**500,438**	**5.21**	**3.73**	**0.85**	**0.83**	**0.39**	**0.16**	**506,483**	**6.62**	**4.75**	**1.06**	**0.81**	**0.54**	**0.22**
ALABAMA	47,040	5.90	4.06	0.99	0.85	0.46	0.14	56,335	7.88	5.32	1.37	1.19	0.74	0.30
KENTUCKY	17,094	4.78	3.29	0.75	0.74	0.74	0.07	30,767	8.05	4.11	0.98	0.96	0.85	0.11
MISSISSIPPI	19,688	5.74	3.84	0.96	0.94	0.21	0.12	27,300	7.95	5.30	1.32	1.33	0.53	0.27
TENNESSEE	40,192	6.92	4.78	1.10	1.04	0.37	0.18	69,343	8.30	5.47	1.40	1.43	0.66	0.35
E.S. CENTRAL	**124,014**	**6.05**	**4.15**	**0.99**	**0.91**	**0.43**	**0.14**	**183,745**	**7.75**	**5.17**	**1.31**	**1.27**	**0.69**	**0.28**
ARKANSAS	10,997	5.83	3.88	0.96	0.99	0.43	0.17	12,415	5.98	4.37	0.77	0.84	0.41	0.18
LOUISIANA	48,306	4.19	3.12	0.62	0.45	0.27	0.16	55,748	6.33	4.63	1.02	0.68	0.25	0.17
OKLAHOMA	45,675	5.05	3.53	0.82	0.70	0.57	0.21	73,980	5.43	4.01	0.81	0.61	0.43	0.21
TEXAS	225,570	5.72	3.74	1.04	0.94	0.35	0.20	262,567	5.74	3.96	0.97	0.81	0.25	0.15
W.S. CENTRAL	**330,548**	**5.41**	**3.63**	**0.94**	**0.84**	**0.37**	**0.19**	**404,710**	**5.77**	**4.07**	**0.94**	**0.76**	**0.29**	**0.17**
ARIZONA	76,261	5.38	3.66	0.98	0.74	0.67	0.21	149,505	5.92	4.16	0.97	0.79	0.64	0.23
COLORADO	88,555	5.45	3.52	0.91	1.02	0.60	0.15	80,077	5.43	3.60	0.85	0.98	0.64	0.17
IDAHO	13,625	6.02	3.93	1.01	1.08	0.93	0.34	17,421	6.31	3.97	1.26	1.08	0.95	0.33
MONTANA	5,970	4.83	3.15	0.89	0.79	0.80	0.20	8,014	5.54	3.33	0.86	1.35	1.16	0.30
NEVADA	21,185	6.78	4.50	1.18	1.10	1.30	0.45	40,629	8.64	5.48	1.39	1.77	1.43	0.38
NEW MEXICO	11,567	3.68	2.65	0.61	0.42	0.14	0.03	21,152	4.08	2.91	0.68	0.49	0.14	0.09
UTAH	18,273	6.87	4.42	1.32	1.13	0.98	0.18	37,693	7.60	5.00	1.34	1.26	1.06	0.34
WYOMING	4,327	9.52	5.96	2.29	1.27	1.62	0.81	4,810	7.21	3.53	1.77	1.91	1.24	0.98
MOUNTAIN	**239,763**	**5.87**	**3.74**	**1.01**	**0.92**	**0.73**	**0.22**	**359,301**	**6.21**	**4.16**	**1.04**	**1.01**	**0.79**	**0.25**
ALASKA	3,084	3.60	2.24	0.84	0.52	0.29	0.10	3,425	2.86	2.48	0.29	0.09	0.03	0.00
CALIFORNIA	307,031	5.81	3.83	1.00	0.98	1.08	0.22	409,124	7.09	4.66	1.26	1.17	1.04	0.22
HAWAII	11,738	4.11	2.77	0.62	0.72	0.80	0.15	15,459	4.59	3.18	0.83	0.58	0.63	0.05
OREGON	9,193	5.80	3.81	0.90	0.89	1.54	0.22	27,746	5.28	3.67	0.84	0.77	1.23	0.27
WASHINGTON	54,855	6.04	3.82	1.06	1.16	1.48	0.34	109,933	5.14	3.44	0.86	0.84	0.82	0.16
PACIFIC	**385,901**	**5.76**	**3.78**	**0.99**	**0.99**	**1.13**	**0.24**	**565,687**	**6.53**	**4.32**	**1.14**	**1.07**	**1.03**	**0.20**
PUERTO RICO	23,091	9.85	6.44	1.91	1.50	1.68	0.72	83,688	7.90	5.59	1.38	0.93	0.84	0.49
NORTHEAST	**183,455**	**7.62**	**5.10**	**1.32**	**1.20**	**1.00**	**0.31**	**237,883**	**8.86**	**6.11**	**1.49**	**1.26**	**1.03**	**0.27**
NORTH CENTRAL	**403,585**	**7.49**	**4.69**	**1.26**	**1.54**	**1.22**	**0.28**	**590,402**	**8.57**	**5.56**	**1.40**	**1.61**	**1.33**	**0.29**
SOUTH	**955,000**	**5.39**	**3.75**	**0.90**	**0.74**	**0.39**	**0.17**	**1,094,918**	**6.50**	**4.57**	**1.06**	**0.87**	**0.47**	**0.21**
WEST	**625,664**	**5.73**	**3.76**	**1.00**	**0.97**	**0.98**	**0.23**	**924,988**	**6.41**	**4.26**	**1.10**	**1.05**	**0.93**	**0.22**
U.S. TOTAL	**2,361,261**	**6.04**	**4.04**	**1.03**	**0.97**	**0.75**	**0.22**	**3,146,347**	**7.08**	**4.82**	**1.18**	**1.08**	**0.83**	**0.24**
U.S. TOTAL 3-84	NC	5.78	3.84	0.98	0.96	NC	0.25	NC	6.83	4.65	1.12	1.06	NC	0.26

EXHIBIT 8
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DATA ON 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS AS OF SEPTEMBER 30, 1983 AND FOR 3rd QUARTER, 1983

STATE, AREA AND CENSUS REGION	F.H.A. 235 and 237 LOANS							F.H.A. 245 LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	227	15.41	10.13	3.08	2.20	0.88	0.44	293	6.49	4.44	0.34	1.71	0.68	0.00
MAINE	337	10.08	6.23	2.37	1.48	0.59	0.00	2	0.00	0.00	0.00	0.00	0.00	0.00
MASSACHUSETTS	2,017	9.26	6.74	1.78	0.74	0.15	0.10	271	11.44	8.12	2.58	0.74	0.74	0.37
NEW HAMPSHIRE	65	7.70	4.62	1.54	1.54	0.00	0.00	80	3.75	1.25	2.50	0.00	1.25	0.00
RHODE ISLAND	97	3.09	3.09	0.00	0.00	0.00	0.00	10	10.00	10.00	0.00	0.00	0.00	0.00
VERMONT	0	0.00	0.00	0.00	0.00	0.00	0.00	25	4.00	4.00	0.00	0.00	0.00	0.00
NEW ENGLAND	**2,743**	**9.63**	**6.78**	**1.90**	**0.95**	**0.26**	**0.11**	**681**	**8.08**	**5.58**	**1.47**	**1.03**	**0.73**	**0.15**
NEW JERSEY	847	19.12	12.16	2.24	4.72	2.24	0.00	2,084	7.83	4.37	1.54	1.92	2.26	0.10
NEW YORK	494	13.56	8.70	3.24	1.62	0.61	0.00	135	15.55	13.33	2.22	0.00	0.00	0.00
PENNSYLVANIA	1,556	21.14	13.37	3.21	4.56	0.71	0.00	1,038	7.80	4.43	1.64	1.73	2.60	0.19
MID ATLANTIC	**2,897**	**19.26**	**12.22**	**2.93**	**4.11**	**1.14**	**0.00**	**3,257**	**8.14**	**4.76**	**1.60**	**1.78**	**2.27**	**0.12**
ILLINOIS	4,169	17.22	10.65	2.90	3.67	1.39	0.31	7,917	9.46	5.34	1.25	2.87	1.83	0.42
INDIANA	1,820	10.16	6.21	1.81	2.14	0.82	0.33	1,057	5.58	3.12	0.76	1.70	0.57	0.47
MICHIGAN	4,508	14.62	9.85	2.64	2.13	1.51	0.31	1,004	6.07	4.18	0.40	1.49	2.09	0.70
OHIO	3,567	10.94	7.60	1.74	1.60	1.65	0.25	1,454	6.39	3.71	0.69	1.99	1.51	0.14
WISCONSIN	1,874	10.34	6.56	1.65	2.13	2.40	0.53	2,034	5.60	2.85	0.69	2.06	1.33	0.15
E.N. CENTRAL	**15,938**	**13.47**	**8.75**	**2.30**	**2.42**	**1.54**	**0.33**	**13,466**	**7.99**	**4.53**	**1.00**	**2.46**	**1.64**	**0.37**
IOWA	1,079	12.23	7.60	2.59	2.04	0.28	0.19	1,862	7.57	3.81	0.86	2.90	0.64	0.16
KANSAS	485	11.14	6.19	2.89	2.06	0.41	0.00	1,548	4.72	3.23	0.78	0.71	0.84	0.00
MINNESOTA	1,703	6.93	5.17	0.88	0.88	0.23	0.00	5,116	4.95	3.03	0.84	1.08	0.90	0.06
MISSOURI	1,374	11.64	7.64	2.47	1.53	0.44	0.58	1,717	5.25	4.02	0.82	0.41	0.47	0.00
NEBRASKA	665	10.23	6.17	1.95	2.11	0.45	0.30	475	7.78	5.05	1.05	1.68	0.42	0.00
NORTH DAKOTA	208	7.21	6.25	0.48	0.48	0.00	0.00	28	3.57	0.00	0.00	3.57	0.00	0.00
SOUTH DAKOTA	483	2.90	2.28	0.21	0.41	[illegible]	0.00	765	2.48	1.44	0.26	0.78	0.00	0.00
W.N. CENTRAL	**5,997**	**9.36**	**6.17**	**1.77**	**1.42**	**0.32**	**0.20**	**11,511**	**5.33**	**3.30**	**0.80**	**1.23**	**0.70**	**0.05**
DELAWARE	97	19.58	15.46	1.03	3.09	[illegible]	0.00	25	4.00	4.00	0.00	0.00	0.00	0.00
D C	113	15.92	12.39	2.65	0.88	0.00	0.00	123	15.45	10.57	2.44	2.44	5.69	0.81
FLORIDA	12,236	11.80	8.03	1.93	1.84	0.57	0.29	11,491	8.51	5.82	1.44	1.25	0.94	0.18
GEORGIA	4,999	12.54	8.62	2.32	1.60	0.74	0.54	13,614	6.28	4.54	1.04	0.70	0.39	0.10
MARYLAND	122	14.76	9.84	4.10	0.82	0.00	0.00	4,200	6.93	4.69	1.24	1.00	0.86	0.10
N C	3,655	10.94	7.77	1.83	1.34	0.77	0.19	3,466	4.30	3.43	0.52	0.35	0.29	0.03
S C	3,158	15.51	11.27	2.66	1.58	1.36	0.38	1,599	4.82	3.25	0.94	0.63	0.81	0.19
VIRGINIA	1,902	11.35	9.15	1.52	0.68	0.68	0.00	6,194	4.26	3.29	0.60	0.37	0.45	0.02
W VIRGINIA	118	11.02	9.32	0.85	0.85	0.00	0.00	2	0.00	0.00	0.00	0.00	0.00	0.00
S. ATLANTIC	**26,400**	**12.29**	**8.64**	**2.05**	**1.60**	**0.73**	**0.31**	**40,714**	**6.47**	**4.60**	**1.06**	**0.81**	**0.63**	**0.11**
ALABAMA	5,604	13.01	7.76	2.23	3.02	1.75	0.23	2,640	10.87	7.08	1.82	1.97	1.59	0.42
KENTUCKY	3,462	9.24	6.64	1.21	1.39	0.64	0.03	149	12.08	6.04	2.68	3.36	2.68	0.00
MISSISSIPPI	2,665	12.35	7.77	2.59	1.99	0.79	0.23	543	10.14	5.16	2.03	2.95	2.39	0.00
TENNESSEE	5,406	13.32	8.40	2.87	2.05	0.87	0.24	3,131	7.32	5.05	1.25	1.02	1.18	0.29
E.S. CENTRAL	**17,137**	**12.24**	**7.74**	**2.28**	**2.22**	**1.10**	**0.19**	**6,463**	**9.11**	**5.91**	**1.58**	**1.62**	**1.49**	**0.31**
ARKANSAS	502	6.18	4.98	0.80	0.40	0.00	0.00	51	1.96	0.00	0.00	1.96	0.00	0.00
LOUISIANA	6,548	9.56	6.90	1.74	0.92	0.41	0.15	1,335	3.97	3.22	0.60	0.15	0.45	0.07
OKLAHOMA	2,789	10.36	7.49	1.72	1.15	0.36	0.14	3,218	5.48	3.67	1.03	0.78	0.90	0.19
TEXAS	10,248	11.64	8.41	1.90	1.33	0.18	0.14	15,390	4.98	3.10	1.00	0.88	0.37	0.08
W.S. CENTRAL	**20,087**	**10.66**	**7.71**	**1.80**	**1.15**	**0.27**	**0.14**	**19,994**	**4.99**	**3.19**	**0.98**	**0.82**	**0.46**	**0.10**
ARIZONA	4,215	12.50	8.85	2.18	1.47	0.38	0.12	10,476	7.32	4.87	1.19	1.26	1.03	0.33
COLORADO	1,905	9.28	6.61	1.31	1.36	0.79	0.05	14,310	6.35	4.23	0.92	1.20	0.70	0.13
IDAHO	1,242	14.89	8.45	4.11	2.33	0.32	0.24	2,489	5.90	3.86	1.12	0.92	0.64	0.08
MONTANA	331	8.15	4.83	1.51	1.81	2.42	0.30	578	7.44	4.15	0.87	2.42	1.73	0.35
NEVADA	1,674	19.35	10.81	3.58	4.96	1.25	0.30	2,219	9.60	6.49	1.53	1.58	1.98	0.27
NEW MEXICO	1,175	10.64	6.89	2.30	1.45	0.34	0.34	835	3.12	2.40	0.24	0.48	0.12	0.12
UTAH	4,129	8.86	5.74	1.79	1.33	0.65	0.31	7,555	9.24	6.02	1.58	1.64	1.02	0.32
WYOMING	100	14.00	8.00	2.00	4.00	3.00	0.00	252	6.75	3.97	1.59	1.19	1.59	0.00
MOUNTAIN	**14,771**	**11.81**	**7.63**	**2.27**	**1.91**	**0.66**	**0.22**	**38,714**	**7.28**	**4.81**	**1.16**	**1.31**	**0.93**	**0.23**
ALASKA	6	0.00	0.00	0.00	0.00	0.00	0.00	77	3.90	3.90	0.00	0.00	0.00	0.00
CALIFORNIA	9,417	16.76	9.91	3.82	3.03	0.95	0.16	39,447	8.33	5.50	1.37	1.46	1.58	0.19
HAWAII	1,105	14.30	9.95	3.08	1.27	0.72	0.18	901	5.88	4.11	0.22	1.55	2.00	0.00
OREGON	661	8.93	6.20	1.97	0.76	0.30	0.00	1,956	6.59	3.94	1.12	1.53	1.74	0.20
WASHINGTON	3,033	13.79	8.51	2.44	2.84	0.69	0.03	10,247	7.29	4.17	1.20	1.92	1.40	0.12
PACIFIC	**14,222**	**15.56**	**9.44**	**3.38**	**2.74**	**0.84**	**0.13**	**52,628**	**8.01**	**5.15**	**1.31**	**1.55**	**1.56**	**0.17**
PUERTO RICO	5,432	14.84	11.10	2.23	1.51	1.09	0.96	0	0.00	0.00	0.00	0.00	0.00	0.00
NORTHEAST	**5,640**	**14.57**	**9.57**	**2.43**	**2.57**	**0.71**	**0.05**	**3,938**	**8.12**	**4.90**	**1.57**	**1.65**	**2.01**	**0.13**
NORTH CENTRAL	**21,935**	**12.34**	**8.05**	**2.15**	**2.14**	**1.20**	**0.29**	**24,977**	**6.76**	**3.96**	**0.91**	**1.89**	**1.21**	**0.22**
SOUTH	**63,624**	**11.76**	**8.10**	**2.03**	**1.63**	**0.68**	**0.22**	**67,171**	**6.28**	**4.31**	**1.08**	**0.89**	**0.66**	**0.13**
WEST	**28,993**	**13.66**	**8.52**	**2.82**	**2.32**	**0.75**	**0.17**	**91,342**	**7.70**	**5.01**	**1.24**	**1.45**	**1.29**	**0.19**
U.S. TOTAL	**133,885**	**12.45**	**8.36**	**2.23**	**1.86**	**0.78**	**0.24**	**192,895**	**7.04**	**4.59**	**1.15**	**1.30**	**1.05**	**0.17**
U.S. TOTAL (S.A.)	*NC*	*11.90*	*8.11*	*2.08*	*1.71*	*NC*	*0.27*	*NC*	*NC*	*NC*	*NC*	*NC*	*NC*	*NC*

EXHIBIT 8
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MORTGAGE BANKERS ASSOCIATION OF AMERICA

NATIONAL DELINQUENCY SURVEY OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS
SEPTEMBER 30, 1983

CENSUS REGION	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE															PERCENT OF LOANS FORECLOSURES STARTED DURING QUARTER		
	TOTAL PAST DUE			30 DAYS			60 DAYS			90 DAYS OR MORE			90 DAYS OR MORE (S.A.)					
		CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM		CHANGE FROM	
	CURR QTR	YR AGO	QTR AGO	CURR QTR	YR AGO	QTR AGO	CURR QTR	YR AGO	QTR AGO	CURR QTR	YR AGO	QTR AGO	CURR QTR	QTR AGO	CURR QTR	YR AGO	QTR AGO
CONVENTIONAL LOANS																		
Northeast	4.19	(0.49)	0.03	3.04	(0.32)	0.03	0.71	(0.90)	0.05	0.44	(0.08)	(0.04)	0.44	(0.07)	0.07	(0.01)	(0.01)
North Central	3.66	(0.19)	0.34	2.44	(0.05)	0.17	0.61	(0.67)	0.06	0.61	(0.05)	0.11	0.61	(0.08)	0.15	(0.01)	0.00
South	2.77	0.13	(0.20)	1.95	(0.01)	(0.12)	0.39	(0.02)	(0.07)	0.43	0.17	0.00	0.44	(0.07)	0.17	0.09	0.00
West	3.87	0.04	(0.11)	2.51	(0.09)	(0.10)	0.72	0.01	0.04	0.64	0.11	(0.05)	0.65	(0.10)	0.17	0.02	(0.01)
U.S. TOTAL	**3.66**	**(0.20)**	**(0.04)**	**2.51**	**(0.17)**	**(0.05)**	**0.62**	**(0.05)**	**0.01**	**0.53**	**0.02**	**(0.00)**	—	—	**0.15**	**0.02**	**0.00**
U.S. Total (s.a.)	*3.60*	—	*(0.31)*	*2.45*	—	*(0.22)*	*0.61*	—	*(0.05)*	*0.54*	—	*(0.04)*	*0.54*	*(0.04)*	*0.16*	—	*0.00*
V.A. LOANS																		
Northeast	7.62	(0.01)	0.52	5.10	(0.11)	0.21	1.32	(0.07)	0.08	1.20	0.18	0.23	1.25	(0.18)	0.31	0.09	(0.15)
North Central	7.49	(0.36)	0.53	4.89	(0.32)	0.09	1.26	(0.12)	0.10	1.54	0.07	0.33	1.47	0.11	0.28	(0.05)	(0.04)
South	5.39	0.15	0.51	3.75	0.01	0.26	0.90	0.01	0.12	0.74	0.13	0.14	0.73	0.06	0.17	0.01	(0.01)
West	5.73	(0.18)	0.17	3.76	(0.16)	0.07	1.00	(0.06)	0.03	0.97	0.03	0.06	0.95	(0.11)	0.23	0.01	(0.01)
U.S. TOTAL	**6.04**	**(0.09)**	**0.41**	**4.04**	**(0.12)**	**0.16**	**1.03**	**(0.05)**	**0.08**	**0.97**	**0.07**	**0.15**	—	—	**0.22**	**0.00**	**(0.03)**
U.S. Total (s.a.)	*5.78*	—	*(0.30)*	*3.84*	—	*(0.27)*	*0.98*	—	*(0.08)*	*0.96*	—	*0.03*	*0.96*	*0.03*	*0.25*	—	*(0.01)*
ALL F.H.A. LOANS																		
Northeast	8.86	(0.32)	0.37	6.11	(0.30)	0.16	1.49	(0.14)	0.08	1.26	0.12	0.12	1.31	0.08	0.27	0.05	(0.37)
North Central	8.57	(0.66)	0.57	5.56	(0.54)	0.10	1.40	(0.20)	0.16	1.61	0.08	0.31	1.55	0.11	0.29	(0.10)	(0.04)
South	6.50	0.23	0.73	4.57	0.05	0.41	1.08	0.01	0.12	0.87	0.17	0.20	0.88	0.12	0.21	0.02	(0.01)
West	6.41	(0.18)	0.38	4.26	(0.24)	0.18	1.10	(0.05)	0.09	1.05	0.11	0.09	1.04	(0.06)	0.22	0.00	(0.01)
U.S. TOTAL	**7.08**	**(0.28)**	**0.53**	**4.82**	**(0.26)**	**0.25**	**1.18**	**(0.10)**	**0.11**	**1.08**	**0.08**	**0.17**	—	—	**0.24**	**(0.02)**	**(0.04)**
U.S. Total (s.a.)	*6.83*	—	*0.15*	*4.65*	—	*(0.18)*	*1.12*	—	*(0.06)*	*1.06*	—	*0.06*	*1.06*	*0.06*	*0.26*	—	*(0.03)*
F.H.A. LOANS (excluding 235 & 237)																		
Northeast	8.45	(1.06)	0.06	5.86	(0.56)	0.04	1.32	(0.42)	(0.08)	1.27	(0.05)	0.11	1.34	0.07	0.15	(0.11)	(0.55)
North Central	8.57	(0.68)	0.61	5.52	(0.52)	0.10	1.39	(0.21)	0.17	1.66	0.05	0.35	1.61	0.13	0.29	(0.10)	(0.03)
South	5.94	0.07	0.60	4.17	(0.08)	0.32	0.96	0.00	0.10	0.81	0.16	0.18	0.82	0.10	0.18	0.01	(0.01)
West	6.15	(0.20)	0.33	4.11	(0.24)	0.15	1.04	(0.05)	0.08	1.00	0.09	0.10	1.02	0.00	0.22	0.00	0.00
U.S. TOTAL	**6.71**	**(0.34)**	**0.43**	**4.56**	**(0.28)**	**0.17**	**1.10**	**(0.11)**	**0.09**	**1.05**	**0.07**	**0.17**	—	—	**0.22**	**(0.02)**	**(0.05)**
U.S. Total (s.a.)	*6.50*	—	*(0.18)*	*4.41*	—	*(0.21)*	*1.05*	—	*(0.08)*	*1.04*	—	*0.09*	*1.04*	*0.09*	*0.23*	—	*(0.04)*
F.H.A. LOANS (Section 235 and 237)																		
Northeast	14.57	2.54	3.17	9.57	1.38	1.94	2.43	0.15	0.52	2.57	1.01	0.70	2.61	0.69	0.05	(0.12)	(0.11)
North Central	12.34	(0.95)	0.71	8.05	(0.95)	0.19	2.15	(0.18)	0.09	2.14	0.18	0.42	2.05	0.33	0.29	(0.14)	(0.13)
South	11.76	(0.35)	0.87	8.10	(0.29)	0.25	2.03	(0.16)	0.24	1.63	0.10	0.37	1.56	0.12	0.22	(0.22)	(0.19)
West	13.66	2.35	0.29	8.52	0.89	(0.25)	2.82	0.64	0.43	2.32	0.81	0.11	2.25	(0.36)	0.17	(0.20)	(0.28)
U.S. TOTAL	**12.45**	**0.23**	**0.86**	**8.36**	**0.01**	**0.34**	**2.23**	**(0.05)**	**0.21**	**1.86**	**0.27**	**0.30**	—	—	**0.24**	**(0.15)**	**(0.16)**
U.S. Total (s.a.)	*11.80*	—	*(0.35)*	*8.11*	—	*(0.25)*	*2.08*	—	*(0.12)*	*1.71*	—	*0.02*	*1.71*	*0.02*	*0.27*	—	*(0.12)*
F.H.A. 245 LOANS																		
Northeast	8.12	2.65	2.49	4.90	1.50	1.43	1.57	0.27	0.53	1.65	0.89	0.54	1.65	0.54	0.13	(0.01)	(0.31)
North Central	6.76	0.04	1.07	3.96	(0.13)	0.43	0.91	(0.18)	0.07	1.89	0.37	0.59	1.89	0.59	0.22	0.04	(0.04)
South	6.28	1.31	1.50	4.31	0.67	0.97	1.08	0.23	0.28	0.89	0.40	0.26	0.89	0.26	0.13	(0.64)	0.04
West	7.70	(0.27)	0.04	5.01	(0.22)	0.15	1.24	(0.21)	(0.08)	1.45	0.16	(0.03)	1.45	(0.03)	0.19	0.02	(0.06)
U.S. TOTAL	**7.04**	**0.17**	**0.67**	**4.59**	**0.04**	**0.46**	**1.15**	**(0.07)**	**0.07**	**1.30**	**0.20**	**0.13**	—	—	**0.17**	**(0.16)**	**(0.04)**
*U.S. Total (s.a.)**	*n.a.*	—	—	*n.a.*	—	—	*n.a.*	—	—	*n.a.*	—	—	*n.a.*	—	*n.a.*	—	—

*Seasonally adjusted series for 90 days or more and U.S. Totals are not available

EXHIBIT 8
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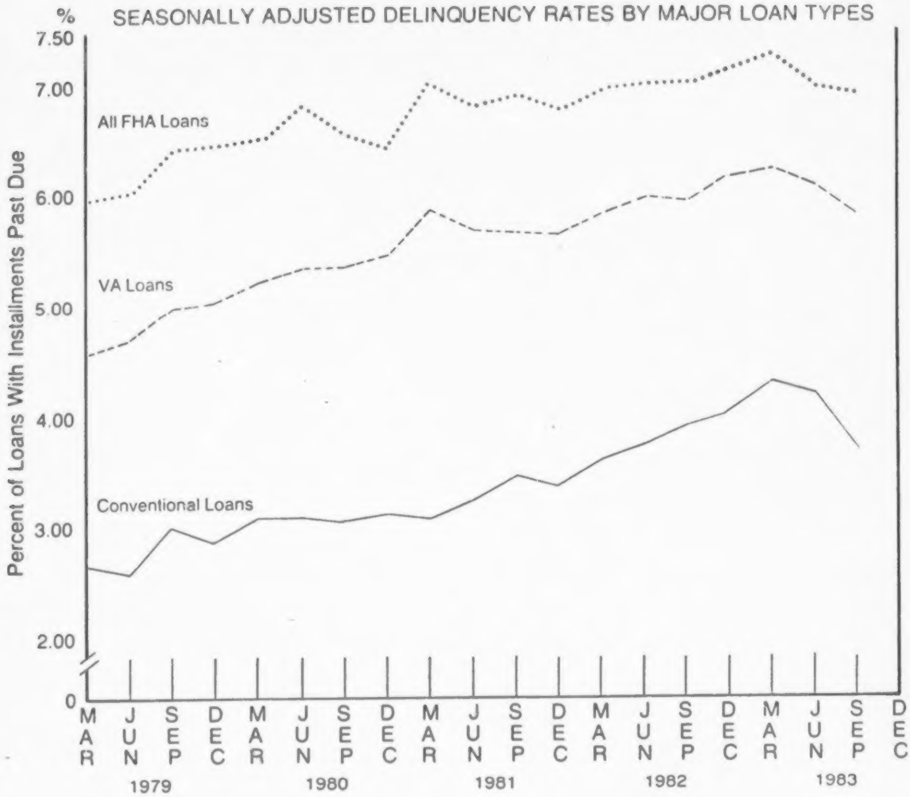
MORTGAGE BANKERS ASSOCIATION OF AMERICA

NATIONAL DELINQUENCY SURVEY OF 1-4 UNIT RESIDENTIAL MORTGAGE LOANS
SEPTEMBER 30, 1983



SEASONALLY ADJUSTED DELINQUENCY RATES BY MAJOR LOAN TYPES

SURVEY INFORMATION AND NOTES

1 This survey includes over 9 million mortgage loans on 1- to 4-unit residential properties totaling an estimated $273 7 billion of debt These loans are serviced by more than 500 reporters including mortgage bankers commercial banks savings banks savings and loan associations and life insurance companies

2 A loan is considered 30 days delinquent if the September 1 installment has not been paid as of September 30 A loan is 60 days delinquent if the August 1 installment is unpaid as of September 30 etc

3 "Foreclosure started during quarter" includes loans placed in the process of foreclosure during second quarter deeds in lieu of foreclosure and loans assigned to FHA VA other insurers or investors "Foreclosure inventory end of quarter" includes all loans in process of foreclosure on September 30 Both foreclosure categories are excluded from "total installments past due."

4 Not all reporters provide data on FHA loans by section thus, the sum of the two types of FHA loan breakdowns will not necessarily equal the number of all FHA loans reported

5 National totals include Puerto Rico loans and loans of firms not providing state-by-state data

6 s a —seasonally adjusted data

7 nc—not calculated

8 Series does not exhibit stable seasonal patterns

CENSUS REGIONS

WEST
NORTH CENTRAL
NORTHEAST
SOUTH
PACIFIC

Annual subscription for nonmember firms is $25.00

EXHIBIT 9
Page 1

AMERICAN BANKERS ASSOCIATION
MORTGAGE BANKERS ASSOCIATION
NATIONAL ASSOCIATION OF HOME BUILDERS
NATIONAL ASSOCIATION OF REALTORS®
NATIONAL COUNCIL OF SAVINGS INSTITUTIONS
U.S. LEAGUE OF SAVINGS INSTITUTIONS

February 10, 1984

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

In times of past crises in this Nation, our political leaders have come together in a bipartisan manner to develop effective solutions in the public interest. Our Nation faces such a crisis today. Excessive current and projected Federal budget deficits threaten to abort the recovery and cripple badly needed long-term capital investment. Financial markets already reflect this fear.

Deficit reduction measures must be implemented before mid-1984 if a premature end of the recovery and consequent rising unemployment are to be avoided. Thus, the bipartisan Task Force, which we support as a reasonable approach, must report its recommendations as soon as possible, but no later than mid-April 1984.

No parts of the Federal budget can be considered untouchable in the attack on deficits. The growth of all programs, including defense and entitlement spending programs, must be slowed. Any increases in tax revenues must be broad-based and at least matched simultaneously by spending cuts. This could include programs and tax provisions adjusted by the Consumer Price Index. The down payment should be enacted this year and future year installments toward a balanced budget should be specified to the greatest extent possible.

In this regard, we remind our political leaders that past "promises" that tax increases would be matched or exceeded by spending cuts have been ignored, a result we considered totally intolerable then and equally intolerable today.

EXHIBIT 9
Page 2

The threat to this Nation is immediate and real. As major contributors to the health and well-being of the American economy, we believe the Nation demands effective and bipartisan action now.

Respectfully,

C. Robert Brenton
C. Robert Brenton
President
AMERICAN BANKERS ASSOCIATION

Donald H. Treadwell
Donald H. Treadwell
President
NATIONAL ASSOCIATION OF
REALTORS®

Felix M. Beck
Felix M. Beck
President
MORTGAGE BANKERS ASSOCIATION
OF AMERICA

M. Todd Cooke
M. Todd Cooke
Chairman
NATIONAL COUNCIL OF
SAVINGS INSTITUTIONS

Peter D. Herder
Peter D. Herder
President
NATIONAL ASSOCIATION OF
HOME BUILDERS

Paul W. Prior
Paul W. Prior
Chairman
U.S. LEAGUE OF SAVINGS
INSTITUTIONS

Chairman SIMPSON. It is my understanding that the VA guaranty was to take the place of the downpayment that a lender would normally require when making a conventional loan. That was, I think, the purpose of it. So even when one makes a $100,000 loan the guaranty will amount to $27,500, which seems to be a substantial downpayment for a conventional loan borrower.

That being the case, I'd be interested in your comments of why you feel that lenders would have to require downpayments when you already have the $27,500 full guaranty.

Mr. WERTHEIM. Is this for me or Mr. Mahn?

Chairman SIMPSON. Whoever.

Mr. WERTHEIM. It is true that that is a very good downpayment. I think that the reason is that it is an entitlement for the veteran.

Chairman SIMPSON. It's the best you can get, it's guaranteed by the USA.

Mr. WERTHEIM. That's right.

However, if the veteran puts some cash down then that will probably cause him to be a little bit more concerned about not making his full mortage payments than it would be if it's the guaranty simply of the Federal Government.

Chairman SIMPSON. Is that the sole reason that he—it makes you feel safer?

Mr. WERTHEIM. Well, I don't think that any veteran does not make his payment because he does not want to. We don't find that in our experience at all. I think that it's because he can't make his payment. And it's not an easy decision for him to make.

The VA does a great deal to try to assist the veteran, if that happens, as you've heard. And I don't agree that we should have a cash downpayment. I was simply trying to answer your question.

I believe that every veteran, by far the vast majority of them want to make that payment and it's only when they have a very difficult time that they don't make the payment. In our particular part of the country, when the uranium boom sort of stopped we had lots of people that couldn't make their payments; a very difficult time. A small town where you couldn't sell a house. And those are the places that you get those defaults.

And so I think that it's something that one needs to look at very carefully.

Chairman SIMPSON. Oh, I concur totally. I agree with you fully.

What percentage—maybe you gave this figure—what percentage of the Nation's mortgage bankers loans are VA guaranteed loans and what percentage of those are made by mortgage bankers?

Mr. WERTHEIM. That is in our formal testimony. The mortgage banker makes about 70 to 73 percent of all the VA loans made in the United States. And of the total, it seems to me that about 8 percent of the loans made are VA-guaranteed loans. Page 4 and exhibit 4 is where that information is set forth.

Chairman SIMPSON. Yes. OK.

Mr. WERTHEIM. Page 4. I think this has it. Those statistics are outlined. That's about correct.

Chairman SIMPSON. OK.

Mr. WERTHEIM. And it's also in exhibit 2 in our formal presentation.

Chairman SIMPSON. That's good. That's helpful for me, thank you.

Please explain the facts as your organization views them that have led to the rapid increase in the average net loss suffered by the VA in the sale of properties purchased after foreclosure. Do you feel there is a need for reform or improvement in the qualifying of veterans for loans which are accompanied by VA guaranty?

Mr. WERTHEIM. We really haven't studied it, so that anything I might say, Mr. Chairman, would be strictly speculation. We will furnish that for the record.

Chairman SIMPSON. If you would please.

Mr. WERTHEIM. Our economics department will do that.

[Subsequently, the Mortgage Bankers Association of America submitted the following information:]

INCREASES IN LOSSES

From 1979 to 1983, the average loss on a foreclosed property sold by the Veterans' Aministration increased from $4,081 to $9,371, a rise of 130 percent. The majority of this increase took place between 1981 and 1983.

Based on our analysis, there has been one major factor causing this rapid increases: The real estate market in 1981, 1982 and to a lesser extent in 1983, was in a depressed state. The effects of this depression in the real estate markets on the Veterans' Administration's property sales have been numerous. More VA-guaranteed loans were falling into default and foreclosure and the VA had a large stock of properties to manage and sell. At the same time, due to high interest rates, home prices were falling and home sales were reduced sharply from previous levels. Thus, at a time when the VA needed to sell its large inventory of properties, the housing market was glutted.

This glut affected the price the VA could get for its properties in two ways. First, the price the VA anticipated selling the properties for at the time of the bid submission was probably higher than could be realized in the market during 1981, 1982, and 1983. Therefore, the price received by the VA was less than that factored into the bid price. In addition, the lower price the VA received was reduced by larger than expected holding costs incurred by carrying the properties an abnormally long time before selling them. Both of these pressures on the price the VA received for its properties caused the loss the VA sustained to be greatly increased.

REFORM IN QUALIFYING VETERANS

In a program as large as the VA Home Loan Guaranty Program, there can be cases where the veteran who received a guaranty would not have qualified if greater care had been taken in evaluating the application for guaranty. However, MBA's experience is that no pattern exists in the program that would suggest that a reform is needed in the qualifying of veterans for loans that are accompanied by the VA guaranty. The Home Loan Guaranty Program has been operated successfully over the years to permit as many veterans as reasonable risk will allow to obtain financing to own their homes. Tightening credit standards for veterans seeking a guaranty might reduce the VA's risk somewhat, but it would also result in some veterans being denied homeownershp who would have been able to buy a home if the credit standards were not tightened.

Chairman SIMPSON. Then, Mr. Mahn, according to page 4 of your testimony you are concerned about your own ability to manage an increase of 7,800 properties——

Mr. MAHN. That's correct, sir.

Chairman SIMPSON [continuing]. If the VA ceased to acquire the foreclosed properties. Do you feel that if there were stricter and better monitored requirements of credit worthiness of veteran buyers that that number of foreclosed properties would be substantially reduced?

Mr. MAHN. I certainly think there is room for improvement in the program in terms of underwriting standards in the credit approval.

Chairman SIMPSON. Because that's where we're getting into it really. You cannot in your business operate in a risk free environment. Many hope to do that but that's impossible. And other lenders in the real world have to go through the anxious and the distasteful of foreclosure sometimes. That is a reality of lending, I think, still.

So why should we not have perhaps stricter requirements for eligibility? Isn't that better if you're interested, as you expressed, to help the veteran? It would seem to me that we would do the veteran much more of a favor by not letting him go through the embarrassment and harassment of foreclosure and default when he can be guided away from that early on when his credit worthiness and his ability has become quite apparent to the people putting up the money.

Mr. MAHN. I agree with you, Mr. Chairman. That certainly is a valid observation.

Chairman SIMPSON. Yes, sir.

Mr. WERTHEIM. Mr. Chairman, I think that's right. However, I look at a lot of loans after they have gone into collection problems or when we have foreclosures, so we can see about our underwriting. We find that in many cases the best underwriting in the world would have not seen that.

What happens, at least in our situation, is, you have a community where you have an impact such as the oil business slows down or, as I said, in our particular State the uranium activity slows down considerably, and the best underwriter in the world would have not been able to foresee the problem that existed there. Unless you wanted to completely stop making loans where a community is impacted by a single industry. That includes a lot of towns, cities and towns all over the United States.

The other thing that we find is that a breakup in the household is really the biggest problem, as far as foreclosure problems. The husband and the wife have a fight and they don't care about the loan, and that's when you have foreclosure problems.

Chairman SIMPSON. That's the real world, indeed.

I used to do FHA loans. I think we charged $40 a closure in my firm—two of us—and we just cranked them out. We'd sit there and hand them that note, which was about 17 pages long, tell them that they knew what they were getting into. They'd say "Oh, yeah," and have no concept of what the year 2016 meant or anything else on it, or the variable interest or the flat interest or the monthly payment. Those are many of the ones now that are creating attention in the United States, those FHA loans.

No one else would take them on. That was their lender of last resort. And they had a certain number they had to crank out and they certainly weren't going to hold any of it back. It's a fascinating business. But it doesn't do that person any great favor when they go through the anguish and embarrassment. And it was often the fighting over the damn loan that causes the disruption in the marriage. I know, I did 1,500 divorces. I remember that. All for less than $300 each.

But it's a very real thing.

Back to this vendee—we never really got to it—but if the VA were to discontinue its practice of selling vendee loans with full recourse, what do you believe would be the effect on those sales?

Mr. MAHN. I can't answer that because I'm not that familiar with that particular program or its impact.

Mr. WERTHEIM. I would like to make a comment.

Chairman SIMPSON. Please.

Mr. WERTHEIM. We believe that it would be adverse to the Government because when the marketplace—first of all, the Government is the one that makes the loan and underwrites it. If you sell this without recourse then the marketplace is going to discount the purchase of that mortgage in order to protect its position. And I would feel sure that the discount would exceed the loss that presently would exist if the program continues.

Chairman SIMPSON. Let me ask you the question about do you feel that VA financing has been used in too high a percentage of property sales? Do you feel that a significant number of sales could have been made in the past with VA financing could have been cash sales? Do you have any idea of that?

Mr. WERTHEIM. You're speaking on the vendee——

Chairman SIMPSON. Yes.

Mr. WERTHEIM [continuing]. As regards the vendee loans?

I listened to the testimony I think of the lady from the Congressional Budget Office, and I thought that was a very interesting observation. I don't know that I could comment. I do think that if, the VA attempted to let the private market finance housing—and FHA certainly tried to do that—that might save some money. I could not speculate for sure. But it's something, that market has become very sophisticated and we can make loans most all over. And it might be that that would benefit the program.

Chairman SIMPSON. How about this area where do you think it would be useful for the VA to perform credit checks and worthiness checks of credit in all cases where a nonveteran assumes a VA-guaranteed loan?

Mr. WERTHEIM. I guess it might be helpful in some cases, but overall I do not think it would be good. I think it would be disruptive.

As a matter of fact, I have an opinion on something that I think would benefit this whole process. That is, that in our own particular situation one of the important things is that we find foreclosure occurs in these slower markets where the interest rate, which over the last 2 or 3 years has been, say, a high 12 or 13, 14, even 15 percent. These particular borrowers are not sophisticated. When you get into small towns, and particularly where I'm from, they are not particularly sophisticated.

If there would be a simpler way where that interest, that veteran could refinance his loan for the pure purposes of permitting it to be sold, then I think the foreclosures would decline. And we try to do that in our own company on an early signal of difficulty because it's not fair to the veteran.

He has that property and the market is competitive. He's got these ARM's, and so forth, and the buyer will choose the best interest rate he can get. So if the veteran who is in trouble, who has lost his job say, has a loan that has a 14-percent interest on it, he's not going to be able to sell that.

And it's difficult for us to assist him even though we would like to. So if there would be a more automatic procedure for that interest rate to be reduced to market we could handle that in the market. I think that would reduce the foreclosures.

So I do not think it would be a good idea to be more difficult as far as underwriting assumptors. I can't speak on the statistics on how many loans are being foreclosed where it's a nonveteran assumptor.

Chairman SIMPSON. That's an interesting suggestion. It is.

Mr. WERTHEIM. I'd like to make one other, if I may.

Chairman SIMPSON. Please comment.

Mr. WERTHEIM. A comment from my own experience.

Chairman SIMPSON. I get more advice than you ever dreamed of. Give me some more. I need it.

Mr. WERTHEIM. I'm just speaking about the VA and how they administer the program. And they really bend over backward to assist the veteran. That's what this program is about and this is what they should be doing.

In our particular State, we go to the VA, they have a great deal of latitude in what they do as far as foreclosure. When we file a notice of intent to foreclose we have to get the VA's approval. If they approve—we don't do that until the veteran is past due for 3 months.

In our State, by putting it in the mortgage, we can reduce the redemption period to 1 month. So that they have 3 months to try to work it out. Then both the VA and we work with the veteran to try to see if he can't pay off or sell the property.

Then there are about 2 more months. So the veteran is living in that house rent free, in our particular State, for up to 5 months in an effort to try to get him to work this thing out.

I guess the point I'm making is the VA really works to try to benefit who I think they should be benefiting, and that's the veteran.

Chairman SIMPSON. Well, that's their function, solely, to care for those who bore the battle, their widows and orphans. And I think they do a good job of it. And the budget of $27 billion reflects rather that, I think.

So when people are always asking about the benefits, I say, good heavens, it's there, it's always been there. We've never failed to meet that commitment.

Where I think we get into problems is that we started out with the service-connected and those in need, and we have broadened it and broadened it and broadened it right down to where Al Simpson can borrow 5 percent on his GI life policy—and what the hell am I doing in the system?

That's where we are and that's where we got a $200 billion deficit. I always sent that back to the people that write me. So I paid off the loan with my wife's money.

So there. I have some further written questions. And appreciate it. Perhaps Senator Cranston will. And thank you very much. You're very helpful.

Mr. WERTHEIM. Thank you very much.

[The response of the Federal National Mortgage Association to written questions submitted by Hon. Alan K. Simpson, chairman of the Senate Committee on Veterans' Affairs, follows:]

RESPONSE OF THE FEDERAL NATIONAL MORTGAGE ASSOCIATION TO WRITTEN QUESTIONS SUBMITTED BY HON. ALAN K. SIMPSON, CHAIRMAN OF THE SENATE COMMITTEE ON VETERANS' AFFAIRS

Question 1. Has FNMA had the opportunity to review the Congressional Budget Office's (CBO) draft report concerning the Loan Guaranty Program and do you have comments on the major findings of that report?

Answer 1. We have reviewed a draft of the CBO report. The report contains some suggestions for changes to VA's procedures that merit further consideration, particularly the points regarding VA's handling of vendee loans.

We have seen only an early draft of CBO's report to which both editorial and substantive changes probably will be made. Nevertheless, we want to comment on the statement in that draft that the impact on lenders of the elimination of property acquisitions by the VA would be primarily one of inconvenience rather than one of financial loss.

As stated in our testimony, we anticipate that the change would result in additional losses on VA loans and a need to expand our current acquired property operation. We expect that many lenders would find it necessary to establish a new acquired property operation, incurring new administrative expenses. In addition, lenders that have issued GNMA pools containing VA mortgages would have to continue advancing delinquent principal and interest payments until the lender sells the acquired property. The cost of this additional cash outlay would increase the lenders' financial loss. Some lenders might avoid VA mortgages rather than be faced with this additional cost.

The impact of the change would be far more than one of inconvenience to the lenders, not to mention the possible effect on the Loan Guaranty Program. This option should be dismissed because (1) it changes the basic ground rules that VA and lenders have been following for years and (2) the long run effects would outweigh the short run benefits.

Question 2. Does FNMA believe the VA loan guaranty maximums of $27,500 for houses and $20,000 for manufactured homes are too low and that a significant number of veterans are currently unable to find willing lenders as a result?

Answer 2. There are some high cost market areas where the current VA loan guaranty maximums make it difficult for veterans to purchase a home. FHA recognizes that these areas exist and has higher loan limits in these areas. In addition, we are seeking higher conventional loan limits in the high cost market areas.

As an alternative to increasing the loan guaranty maximum across the board, Congress might consider allowing higher loan guaranty maximums in high cost market areas. The maximum guaranty in each market could depend upon typical housing costs in that area.

Chairman Simpson. Now the veterans' groups please. We have Paul Egan, deputy director, National Legislative Commission, The American Legion; Jim Magill, special assistant to the director of legislative services of the VFW; John F. Heilman, I believe, known as Rick in some quarters, national legislative director of the DAV; Dennis Rhoades—and I understand, Dennis, this is your first appearance here in the Senate Veterans' Affairs Committee. Pleased to have you with us—executive director. And then your tutor and counsel, John Terzano, the vice president of Vietnam Veterans of America; and Richard Johnson, director of legislative affairs for the Non Commissioned Officers Association of the United States.

Nice to have you with us.

We do request that you go in that order if you would please.

TESTIMONY OF A PANEL OF REPRESENTATIVES OF VETERANS' ORGANIZATIONS CONSISTING OF: PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION, ACCOMPANIED BY JOSEPH E. MILLER, ASSISTANT DIECTOR, NATIONAL LEGISLATIVE COMMISSION; JAMES N. MAGILL, SPECIAL ASSISTANT, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES; JOHN F. HEILMAN, NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS; DENNIS K. RHOADES, EXECUTIVE DIRECTOR, VIETNAM VETERANS OF AMERICA, INC., ACCOMPANIED BY JOHN F. TERZANO, VICE PRESIDENT; AND RICHARD W. JOHNSON, JR., DIRECTOR OF LEGISLATIVE AFFAIRS, NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

Mr. Egan. Thank you, Mr. Chairman.

Over the last 10 to 15 years, the ever rising cost of housing, rising interest rates and intermittent recessions have cast serious doubts on the continued ability of the VA program to fulfill its mission of providing veterans with no money down below market interest rate mortgages. The same changes in housing economics have frustrated the dreams of the now prime, home-buying-aged-baby boom generation of Vietnam-era veterans.

With this in mind, we have to believe that any alterations in the program allowing the pent-up demand of this generation of veterans to purchase homes for the first time would set in motion a growth explosion in the housing industry promising millions of new jobs and even broadened growth in the national economy.

Instead, younger veterans whose economic readjustment problems are well documented, are frozen out of the housing market. Unacceptably high foreclosure rates among veterans suggest that some of those veterans who have not been frozen out of the market should have been.

In the presence of these high rates of foreclosure the Grace Commission suggests that savings could accrue to the Loan Guaranty Revolving Fund if the VA retired its guaranty obligations instead of paying off mortgages and acquiring properties in foreclosures.

The material available to The American Legion, including a draft report compiled by the Congressional Budget Office and a VA Inspector General's report, do not bear out the Grace Commission assumptions.

The Mortgage Bankers Association emphatically agrees. According to the mortgage bankers, if the Grace Commission recommendations are allowed to take effect they will "restrict the program and reduce the availability of home loan guarantee program to veterans, who would otherwise be entitled to participate, but who would not be able to do so if the proposed administrative restrictions are put into effect."

They also say "lenders will be forced to establish large scale real estate disposition operations, something that they are not now equipped to do."

Also, they say "many small mortgage lenders who have issued Government National Mortgage Association mortgage-backed securities may not have the reserves that would be required to pay off the security holders. These lenders could default on their obligations and go bankrupt."

Finally, they say "The Task Force recommendations would drastically curtail future interest on the part of the lenders in investing in VA loans in the future."

In that regard, one of the issues arising out of the Grace Commission recommendations is the question of whether or not bankers and VA are properly qualifying veterans before a certificate of eligibility is awarded and property is purchased. The VA's current practice of routinely acquiring property instead of liquidating the guaranty obligation provides mortgage bankers with almost no incentive to carefully review the veterans' long-term ability to discharge his or her mortgage obligations.

We suggest that decisions made by the VA either to acquire property or settle the guaranty in foreclosure instances may be made based on the best interest of the veterans the program is supposed to serve. In our view, the VA should closely compare lenders and foreclosure rates to see if there are any lenders with unusually high rates of foreclosure.

In such cases, VA might well consider banning those lenders from the participation in the program. In lieu of barring lenders from the program, VA might wish to require obligatory forbearance in cases of loans found to have been made contrary to industry standards and against the best interest of the veteran.

In cases where the lender is unwilling to cooperate, VA should exercise its option to pay only the guaranty rather than acquire the property.

The Grace Commission recommendations in large part have been spawned by the growing interest in the Loan Guaranty Revolving Fund. That fund will soon become insolvent.

Of obvious critical importance to the Fund solvency is effectively reducing the financial drain on it arising from high rates of foreclosure. One initiative to assist in this objective is to provide current veteran homeowners with a measure of protection from foreclosure. Last May, the House passed H.R. 2948, which provides home loan foreclosure relief for veterans if, in the Administrator's judgment, the veteran were likely to be able to repay the VA for its assistance. We believe the Senate should follow suit as soon as possible.

Another way of reducing foreclosure which Congress may wish to consider is the availability to veterans of adjustable rate mortgages. Part of the rationale for this type of mortgage is that income will increase over time and that the homeowners will be able to accommodate higher rates. That reasoning, however, is not supported by the available data.

Income has not kept pace with either rising interest rates or rising housing costs such as utilities and property taxes. This condition can only enlarge the potential for more delinquencies and foreclosures.

In other words, mortgage bankers have created additional competition for otherwise idle mortgage money by expanding the base of eligible to include many who would be unable to meet the financial obligations but who by buying anyway keep interest rates artificially high.

With all this in mind, we offer yet another suggestion which would require congressional approval. In order to bring the VA home loan program closer in line with its original readjustment purposes, and since most foreclosures involve younger, first-time, home-buying veterans, a special program to assist first-time, home-buying veterans might be in order.

I see that the red light has come on.

Chairman SIMPSON. That was extraordinary. I've never had that happen, ever. Very well done.

Mr. EGAN. Oh, well. I would call your attention to the additional suggestions that are made in the statement.

Chairman SIMPSON. We shall.

[The prepared statement of Paul S. Egan, deputy director, National Legislative Commission, The American Legion, follows:]

PREPARED STATEMENT OF PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION

Mr. Chairman and Members of the Committee:

The American Legion appreciates this opportunity to present its views on the VA home loan guarantee program. Given the recent recommendations by the Grace Commission that the VA change its policy with regard to property acquisitions in cases of foreclosure, this hearing could not be more timely.

At first blush, consideration of the Grace Commission findings raises a rather facile and straight forward question: Would the VA accomplish significant savings by taking the Grace Commission's advice? On closer examination, the Grace Commission has raised numerous much more complex questions. These are associated with the solvency of the Loan Guarantee Revolving Fund (LGRF), standard VA practices in foreclosure actions which might be changed to benefit veterans instead of bankers, vulnerability of veterans to foreclosure owing to 100 percent VA indemnification of veterans mortgages. What modifications in the program might be made to allow more veterans to purchase homes despite high interest rates in a volatile economy?

What makes these questions all the more complex is their inter-relationship. In this statement we will explore these and other questions and offer a possible solution for the committee's consideration. Before proceeding, we draw the committee's attention to the limitations of the attached nationally adopted Legion resolutions on the subject of the home loan program. With these resolutions in mind, we offer our best analysis of the present home loan situation.

As you know, this is the third time in as many years that we have discussed with either the House or Senate Veterans Affairs Committee a variety of proposals affecting the home loan program. During this time, The American Legion has had to carefully examine the VA program's relationship with the private sector credit market as well as the real estate industry. In the process we have renewed our respect for one of the few government programs that has managed to remain self sustaining over an extended period. Until recently, the program has been so successful that it has required little more than oversight with slight modifications. The fact that since 1946 over 11 million veterans have been able to use the program to secure mortgages is evidence enough that the program has benefited veterans, the national housing industry and in turn the overall economy.

Over the last 10 to 15 years, however, the ever rising cost of housing, rising interest rates and intermittent recessions have cast serious doubt on the continued ability of the program to fulfill its mission of providing veterans with no money down below market interest rate mortgages. The same changes in housing economics have frustrated the dreams of the now prime home buying aged baby boom generation of Veteran Era veterans. With this in mind, we have to believe that any alterations in the program allowing the pent up demand of this generation of veterans to purchase homes for the first time would set in motion a growth explosion in the housing industry promising millions of new jobs and even broadened growth in the national economy.

Instead, younger veterans whose economic readjustment problems are well documented are frozen out of the housing market. Unacceptably high foreclosure rates among veterans suggest that some of those veterans who have not been frozen out of the market should have been.

In the presence of these high rates of foreclosure the President's Private Sector Survey on Cost Control (PPSSC), otherwise known as the Grace Commission, suggests that savings could accrue to the Loan Guarantee Revolving Fund (LGRF) if the VA retired its guarantee obligations instead of paying off mortgages and acquiring property in foreclosures. Since the VA acquires property in approximately 95 percent of these instances while private mortgage insurers acquire property in only 10-15 percent of instances, it is assumed that the VA is using bad business judgement at the tax payer's expense.

The material available to The American Legion, including a draft report compiled by the Congressional Budget Office (CBO) and a VA Inspector General's report do not bear out the Grace Commission assumptions. This is because the average loss to LGRF after resale of acquired properties is less than the average loss would be if the VA paid the guarantee instead. From the standpoint of good business judgement, if this is true, the VA should continue the practice of acquiring property.

The Mortgage Bankers Association (MBA) emphatically agrees and strongly urges that the VA continue acquiring foreclosed property. According to the mortgage bankers, if the Grace Commission recommendations are allowed to take effect they "... will restrict the program and reduce the availability of the home loan guarantee program to veterans, who would otherwise be entitled to participate, but who would not be able to do so if the proposed administrative restrictions are put into effect." They also say, "... lenders will be forced to establish large scale real estate disposition operations, something that they are not now equipped to do." Also, "... many small mortgage lenders who have issued Government National Mortgage Association (GNMA) mortgage-backed securities may not have the reserves that would be required to pay off security holders. These lenders could default on their obligations and go bankrupt." Moreover, "The Task Force recommendations would drastically curtail future interest on the part of lenders in investing in VA loans in the future."

Frankly, Mr. Chairman, we are a bit confused. Are we to believe the bankers when they hold themselves out as spokespersons in behalf of the best interests of veterans while simultaneously threatening to make mortgage money nearly impossible for veterans to obtain if they don't have their way with regard to the Grace Commission recommendations? If we explore the banker's comments which imply that veterans are somehow less credit worthy than other home buyers we find that the current delinquency rate for VA loans is approximately 1 percent lower than the delinquency rate for FHA mortgages and 3 percent higher than for conventional mortgages. However, this 3 percent higher VA delinquency rate is misleading since veterans have experienced a level of unemployment far in excess of the non-veteran population. A year ago the unemployment rate for the general population stood at 10.7 percent. At the same time veterans were faced with 12-13 percent unemployment. If the delinquency rates for VA and conventional loans are adjusted for the differences in unemployment then the veterans delinquency rate might compare favorably with the delinquency rate for conventional loans. In addition, the data that is most often cited in the comparison of delinquency rates, the "National Delinquency Survey", (NDS) prepared by Mortgage Bankers Association of America (MBAA), is misleading because it compares delinquency rates for 1-4 family unit residential mortgages. But, less than one-half of one percent of all VA home loans are for multiple family residential mortgages. Because of this, the NDS comparisons are, at best, questionable. A more realistic barometer would be to compare only single family unit residential mortgages. Such a comparison might show that veterans have a delinquency rate at or below the delinquency rate for conventional mortgages. The fact is, that demand has been artificially inflated for so long that VA, FHA and conventional home buyers are equally vulnerable financially.

More importantly, what the bankers describe is a situation of financial vulnerability in the mortgage banking industry chillingly similar to conditions on Wall Street at the time of the crash in 1929. The mortgage bankers might be right in their predictions of doom and these same predictions may well constitute a glimpse of what might happen to the entire housing and real estate market if demand for mortgage money is kept artficially high.

In that regard, another of the issues arising out of the Grace Commission recommendations is the question of whether or not bankers and VA are properly qualifying veterans before a certificate of eligibility is awarded and property is purchased. The VA's current practice of routinely acquiring property instead of liquidating the guarantee obligation provides mortgage bankers with almost no incentive to carefully review the veteran's long term ability to discharge his or her mortgage obligations. This same policy effectively constitutes a 100 percent indemnification of bankers by VA. We have to believe that as long as bankers can rely on the VA to pay off foreclosed mortgages instead of paying off the guarantee, mortgage bankers can continue to enjoy a total absence of risk in their dealings with veterans.

This absence of risk for bankers may be good for some veterans who would otherwise be unable to obtain a mortgage, but for many the same absence of banker risk allows veterans to enter into financial obligations they cannot hope to meet. This may be especially true in economically depressed areas and most certainly true if the veteran's mortgage is the adjustable rate type in which mortgage payments rise sharply ahead of the veteran's income each year.

Moreover, if our suspicions are correct and if vetarans were properly qualified before being awarded a guarantee, it would become evident that so few would use the program as to render it near totally useless to the veteran. The problem is especially clear when we consider that only 15 percent of the population can currently afford a $60,000 30 year fixed rate mortgage under present conditions. Given the fact that the average new home is now selling for $75,700 and is expected to rise this year to $81,000, we have serious doubts that very many younger first time home buying veterans will be able to afford homes with or without the VA program, unless a few changes are made.

Another broader assumption of the Grace Commission seems to have it that if each government agency directed its programs according to the dictates of sound cost savings business judgement, billions upon billions could be saved. From a microeconomic standpoint with individual programs in mind, the Grace Commission may be correct. However, the programs of the federal government are not business enterprises and the same rules simply do not apply. Instead, federal government programs are established to serve macro-economic and or macro-social ends. These programs are, in effect, the tools with which the federal government executes its public policy decisions.

The VA home loan program was originally established as a readjustment tool to assist veterans in the purchase of homes. Arguably, changes in the program allowing veterans to use the benefit over and over again have taken it out of the sphere of readjustment benefits. Be that as it may, it is still more intended as a tool to assist veterans than a tool to assist bankers. In the past, both ends have been satisfied, but changing economic circumstances have lately tipped the balance away from veterans.

We suggest that decisions made by VA to either acquire property or settle the guarantee in foreclosure instances be made based on the best interests of the veterans the program is supposed to serve. In our view, the VA should closely compare lenders and foreclosure rates to see if there are any lenders with unusually high rates of foreclosure. In such cases VA might well consider banning these lenders from participation in the program. This step, of course, should be taken only after it has been determined that the lender had or was making loans to veterans likely to default. In lieu of barring lenders from the program, VA might wish to require obligatory forebearance in cases of loans found to have been made contrary to industry standards and against the best interest of the veteran. In cases where the lender is unwilling to cooperate, VA should exercise its option to pay only the guarantee rather than acquire the property. In this way, VA could take a significant step forward in using the VA program as the tool it was intended to be in serving veterans.

The Grace Commission recommendations, in large part, have been spawned by the growing threat that the Loan Guarantee Revolving Fund (LGRF) will soon become insolvent. It is therefore appropriate to make a few observations and comments about LGRF with a view toward putting it back on sounder financial footing. A variety of initiatives could be undertaken to accomplish this purpose; some of them would require Congressional approval and some could be done administratively.

Of obvious critical importance to LGRF solvency is effectively reducing the financial drain on it arising from high rates of foreclosure. One initiative to assist in this objective is to provide current veteran home owners with a measure of protection from foreclosure. Last May, the House passed H.R. 2948 which provides home loan foreclosure relief for veterans if, in the Administrator's judgement, the veteran were likely to be able to repay the VA for its assistance. We believe the Senate should follow suit as soon as possible.

On passage of the House bill, it was assumed that the LGRF would break even if just 40 percent of the veterans assisted repaid the VA. We assume that since much more than 40 percent will repay the VA, the LGRF will save money it would otherwise lose to property acquisition or guarantee liquidation, resale costs and other expenses. Moreover, it is also suggested that if the repayment period were extended beyond that provided for in the House bill, many more veterans would be eligible for the assistance, many more foreclosures would be averted and an even greater percentage of veterans assisted would repay the VA.

Another way of reducing foreclosure which Congress may wish to reconsider is the availability to veterans of adjustable rate mortgages. Part of the rationale for this type of mortgage is that income will increase over time and that homeowners will be able to accommodate higher rates. That reasoning, however, is not supported by the available data.

Income has not kept pace with either rising interest rates or rising housing costs such as utilities and property taxes. In turn, continuing high interest rates have contributed to general economic stagnation, further reducing the likelihood of income increases sufficient to offset mortgage premiums that can raise interest as much as 2 percent each year amounting to a 15 percent increase in mortgage premiums. This condition can only enlarge the potential for more delinquencies and foreclosures.

Since we have not yet gone through a complete business cycle with a large volume of mortgages carrying adjustable or variable rates, no one can accurately predict what will occur during another major recession. Arguments to the contrary notwithstanding, in October of 1983 adjustable rate mortgages including VA, FHA and conventional comprised nearly 50 percent of all mortgages. It is clear that lenders are moving ahead in this direction, but to whose benefit is unclear.

Standard economics suggest that by increasing the base of mortgage eligibles, more competition is created for limited resources. This serves to perpetuate high interest rates by creating artificially high demand. But for the ability to qualify for a mortgage created by adjustable rates, we wonder whether interest rates and property prices would remain as high as they have. On balance the combination of general economic volatility, unpredictable fuel costs and increasing property taxes make adjustable rate mortgages seem very much like a leap in the dark for the veteran who signs up.

As for the bankers, adjustable rate mortgages have become a necessity. Since, as stated earlier, only 15 percent of the population can comfortably afford today's average priced house at current interest rates (13.5 percent conventional and 12.5 percent VA), it has been necessary to expand the pool of home buying eligibles. In fact, short of adjustable rate mortgage plans, banks have been forced by high interest rates to allow home buyers to qualify for mortgages by permitting an ever growing percentage of disposable income to be devoted to mortgage payments. The percentage of a families income that can now be used to meet mortgage costs has risen from 25 percent to 36 percent. In this way, lenders have artifically created additional demand for mortgage money.

In other words, mortgage bankers have created additional competition for otherwise idle mortgage money by expanding the base of eligibles to include many who will be unable to meet the financial obligations, but who by buying anyway keep interest rates artificially high. After having said that, we realize that if the base of eligibles had not been expanded through adjustable rate mortgages and higher income to loan obligations, the financial security of mortgage bankers would have been placed in jeopardy similar to that of savings and loan companies when interest rates began to climb and many of them were left holding billions in low interest bearing long term notes. The point here is not to indict the mortgage bankers, but to suggest that many veterans are and many more can be expected to get into financial trouble if something isn't done to turn things around.

So that there is no misunderstanding about the seriousness of the potential problem, we are well advised to recognize that the lag time between delinquency and foreclosure may mean higher foreclosure rates yet to come even though the most recent recession is all but over. In that regard, many veterans seeking to escape foreclosure by refinancing may fail under the weight of up front financing expenses associated with payments of points and the recently enacted half percent user fee. Nor should we forget that some VA-guaranteed mortgages carry interest rates as high as 17.5 percent.

With all of this in mind, we offer yet another suggestion which would require Congressional approval. In order to bring the VA home loan program closer in line with its original readjustment purposes and since most foreclosures involve younger first time home buying veterans, a special program to assist the first time home buying veteran may be in order. We suspect that a special program allowing many of these veterans to purchase homes could be established which would minimize financial vulnerability while simultaneously expanding the housing industry. Such a program should prove to be attractive to both veterans and lenders and should provide mortgage money at rates even lower than prevailing VA rates. Knowing that investors do not want to hold long term low interest bearing notes, we suggest that such a special program for first time veteran home buyers involve a maximum 60 percent guarantee on unassumable mortgages.

For purposes of discussion, we assume that a veteran buyer wishes to purchase a $65,000 property. Under present circumstances the VA would guarantee $27,500 Of the mortgages or 42 percent of the loan value. We will assume that the maximum interest rate that VA will permit is 14 percent on a 30 year fixed rate mortgage. Our suggestion would allow a 5 percent increase in the guarantee for each 1 percent of interest the lender is willing to go below the VA established rate. The following chart illustrates the increase in guarantee for each percent the interest rate is reduced

INTEREST RATE	LOAN VALUE	GUARANTEE	PERCENT GUARANTEED
14%	$65,000	$27,500	42%
13%	$65,000	$30,550	47%
12%	$65,000	$33,800	52%
11%	$65,000	$37,050	57%
10%	$65,000	$40,300	62%

In our example, the lender would be able to reduce the interest rate charged on the loan by 4 percent. This example permits the veterans monthly mortgage to fall from $785.85 to $619.45, a savings of $166.40 per month. On a $65,000 loan with a fixed rate over 30 years the following table illustrates the monthly cost per thousand dollars and interest charge for each percentage of interest.

PERCENT	LOAN VALUE	RATE	MONTHLY COST PER THOUSAND	MONTHLY PRINCIPLE AND INTEREST
14%	$65,000	30 year	$12.09	$785.85
13%	$65,000	fixed	$11.19	$727.35
12%	$65,000		$10.29	$668.85
11%	$65,000		$ 9.53	$619.45
10%	$65,000		$ 8.78	$570.70

Over a one year period the first time home buyer would save $702.00 with a 1 percent reduction, $1,404.00 with a 2 percent reduction, $1,996.80 with a 3 percent reduction and more yet with a 4 percent reduction in the interest rates charged on the loan. This would vastly broaden the pool of eligible first time home buyers by making housing more affordable and without exposing the veteran to the risk of unanticipated foreclosure. We have to believe that the contribution this program would make to reductions in foreclosure offers a meaningful savings to the Loan Guarantee Revolving Fund.

Because such a program might create a disincentive for bankers to deal with veterans other than first time home buyers, we suggest that the guarantee offered by VA be set at 40 percent instead of the lesser of 60 percent or $27,500. Should the VA decide to implement the Grace Commission recommendations, moving to a flat percentage guarantee may become necessary to maintain banker interest in veterans in any event. Apart from this, last year's Congressional action allowing FHA rates to fluctuate with the market also makes it advisable to reinforce banker interest in dealing with the VA program's sub market interest rates.

Yet another suggestion requiring Congressional consideration would also help to refurbish the LGRF. The recently adopted half percent user fee could be redirected away from the Treasury and into LGRF. According to CBC, "during Fiscal Year 1983, $83.8 million in fees were collected on 236,000 new loans." The CBO has also estimated that the user fee will generate $100 million during FY 84. This money, if redirected to LGRF, would finance 87 percent of the revolving fund's deficit. We believe that the balance of the fund's deficit could be offset by requiring stricter qualifying standards for veterans before they purchase properties and by reducing the number of properties acquired by VA during any given year.

There are additional steps the VA could take administratively to generate savings in the LGRF. These too would make the home loan program a stronger policy execution tool to assist veterans. Last year, for example, we discussed with this committee the possibility of permitting VA loans to be made for rehab housing. Rehab housing provides the opportunity for veterans to acquire housing at a substantial savings. We were led to believe that the VA could institute a rehab housing policy without the need for legislation. However, to our knowledge, nothing has been done by the VA in this regard and legislation may indeed be necessary to make such a program a reality.

At the same time, the VA should develop economies by pursuing a program of property disposal that would include actively promoting properties to veterans wishing to purchase a home. The purchase of inventoried property by veterans would mean that money loaned by the VA would go to a deserving veteran instead of someone outside the VA loan guaranty eligibility sphere, including those who may never have served.

In fact, if the VA were to deal directly with veterans without using real estate agents or companies, additional money could be saved on commission expenses. The commission costs to the revolving fund for the property held only in this region will total nearly $137,000. Moreover, the VA has administrative efficiencies available to it that can substantially reduce the revolving fund deficit and also help veterans. And helping veteran is the reason the VA and the home loan program were established in the first place.

Mr. Chairman, that concludes our statement.

SIXTY-FIFTH ANNUAL NATIONAL CONVENTION
OF
THE AMERICAN LEGION
AUGUST 19-25, 1983
SEATTLE, WASHINGTON

RESOLUTION NO. : 368

COMMITTEE : ECONOMICS

SUBJECT : SUPPORT VETERANS ADMINISTRATION HOME LOAN PROGRAM

WHEREAS, The VA home loan program, as a benefit available to veterans who served their country honorably, has provided over 11 million veterans with the opportunity to own their own homes; and

WHEREAS, Because of changing economic conditions and the very volatile nature of the real estate market, many hundreds of thousands of Vietnam era veterans have been unable to purchase their first homes; and

WHEREAS, The home loan program has operated successfully under the Veterans Administration since its inception in 1944; now therefore be it

RESOLVED, By The American Legion in National Convention assembled in Seattle, Washington, August 23, 24, 25, 1983, that The American Legion support all legislation that will have a positive impact on the VA home loan program; and be it further

RESOLVED, That The American Legion oppose any attempt to remove this home loan program for veterans from the VA.

SIXTY-FIFTH ANNUAL NATIONAL CONVENTION
OF
THE AMERICAN LEGION
AUGUST 19-25, 1983
SEATTLE, WASHINGTON

RESOLUTION NO. : 382

COMMITTEE : ECONOMICS

SUBJECT : SUPPORT LEGISLATION TO ALLOW THE VETERANS ADMINISTRATION TO GUARANTEE LOANS FOR THE PURCHASE AND RENOVATION OF HOUSES NEEDING REHABILITATION

WHEREAS, The VA home loan program is a benefit available to all veterans who served their country honorably, providing over eleven million veterans with the opportunity to purchase their own homes; and

WHEREAS, Many younger veterans, particularly those of the Vietnam era, have been unable to purchase their first homes due to high mortgage principal and interest rates; and

WHEREAS, Housing needing rehabilitation, known as rehab housing, can often be purchased and renovated more cheaply than homes that already meet existing housing codes; and

WHEREAS, There is currently no provision in the VA home loan program for the purchase and renovation of this type of housing, now therefore be it

RESOLVED, By The American Legion in National Convention assembled in Seattle, Washington, August 23, 24, 25, 1983, that The American Legion support legislation that would allow the Veterans Administration to guarantee loans for the purchase and renovation of houses needing rehabilitation.

Washington, D.C. [illegible]

Mortgage Bankers Association of America

Felix M. Beck, CMB
President
(202) 861-6500

December 15, 1983

The Honorable G. V. Montgomery
Chairman
Committee on Veteran's Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Administration is threatening to change the Veterans' Home Loan Guaranty Program in a significant and harmful way, by fiat, without Congressional direction and public discussion. While the exact time of implementation of this change is not definite, the Mortgage Bankers Association of America (MBA) is concerned that it is imminent. MBA respectfully urges you, as Chairman, and the other members of the Committee on Veterans' Affairs, to take appropriate action to prevent the Veterans Administration (VA) from abandoning an element of the VA loan guaranty program that has been used effectively for many years and that is important to the ability of veterans to own their own homes.

VA Home Loan Guaranty Program

The VA home loan guaranty program was established by Congress as an entitlement program. Every veteran meeting the program's requirements should be entitled to the guaranty of his or her home mortgage, as provided by statute. Administrative implementation of the Task Force's proposal will restrict the program and reduce the availability of the home loan guaranty program to veterans, who otherwise would be entitled to participate, but who would not be able to do so if the proposed administrative restrictions are put into effect. MBA urges Congress not to allow this administrative restriction of an entitlement program.

The VA home loan guaranty program is one of the most successful housing programs in this Nation's history. Approximately 11 million veterans have been housed with VA-guaranteed loans. In FY 1982, 92,930 new loans were guaranteed and in FY 1983, the volume rose to 231,620. Mortgage bankers have always been heavily involved in the VA home loan guaranty program. During the last decade, mortgage bankers originated approximately 76 percent of all VA-guaranteed loans.

In order to encourage lender participation in the VA loan guaranty program, minimize administrative costs, and retain the flexibility to allow a deserving veteran to remain in the family home even after mortgage default, the VA has traditionally and wisely accepted title to the property in most foreclosure cases. Now, apparently under pressure from the Office of Management and Budget (OMB), the VA may refuse to acquire title to homes securing mortgages that have gone into default. Rather, the VA would respond to defaults by paying loan holders the guaranteed portion of the loan, leaving the lender to dispose of the property. This proposal, which originated with a Task Force of the President's Private Sector Survey on Costs, should be reviewed by your Committee and the Congress and not allowed to be implemented without that Congressional review.

Problems for Lenders

If the VA accedes to the Task Force recommendation and no longer acquires properties, mortgage lenders will be forced to establish large scale real estate disposition operations, something that they are not now equipped to do. The VA's current practice of acquiring the vast majority of foreclosed properties allows the VA to spread its losses. The VA loses money on the disposition of some properties and breaks even or gains on the sale of others. Most mortgage lenders' operations are not sufficiently large to allow for the spreading of this risk. Lenders with large concentrations of properties in depressed areas would suffer devastating losses on the disposition of foreclosed properties in these areas.

Additionally, many small mortgage lenders who have issued Government National Mortgage Association (GNMA) mortgage-backed securities may not have the reserves that would be required to pay off security holders. These lenders could default on their obligations and go bankrupt.

Impact on Veterans

The shift of risk recommended by the Task Force and the resulting losses to the lending community must necessarily result in less opportunity for the veteran to obtain housing finance and in higher costs of borrowing for the veteran.

The Task Force recommendation would drastically curtail future interest on the part of lenders in investing in VA loans in the future. Those lenders willing to make VA loans would be forced to impose more stringent underwriting requirements on veteran borrowers. Many veterans who could qualify for financing under the VA's credit guidelines would be unable to satisfy the lender's necessary additional requirements. Currently, it is the VA's policies that determine which veterans qualify for financing. However, if the losses that result from borrowers' defaults are shifted to the lender, the policy for determining which veterans qualify for financing will be assumed by the private sector.

One of the most valuable benefits to the veteran of the VA home loan program is the unique no-down payment feature. A veteran may now buy a home with no-down payment, providing his or her income is sufficient to support payments; the VA program is, in fact, the only home mortgage lending program that carries a no-down payment feature. If lenders had to assume an increased risk on default, they would be unwilling to make a VA loan without the equity of a down payment.

If the VA abandons its tradition of accepting title to property, lenders will be forced to try to recover the added losses on VA foreclosures by increasing the discount points to the seller on new loan transactions. Interest rates on conventional and FHA mortgages float with the market and do not require as many discount points.

When the points required to compensate the lender for the recommended change in the VA's policy for acquiring properties are added to the points resulting from the administered VA interest rate, we fear that the veteran will be priced out of the market.

The VA home loan guaranty program should not be tampered with capriciously. Such a fundamental change, as is proposed, should be the subject of hearings before it is implemented, even though statutory authority now technically rests with the VA to make the change.

MBA urges that Congress act quickly to defer implementation of the Task Force recommendation until Congress has had an opportunity to investigage the possible adverse effects upon the veteran homebuyer. Please accept our appreciation for your courtesy in this matter.

Sincerely,

Felix m. Beck

Felix M. Beck

[illegible]
Washington, D.C. 20005

Mortgage Bankers Association of America

Felix M. Beck, CMB
President
(202) 861-6500

January 11, 1984

Mr. Craig Fuller
Assistant to the President for
Cabinet Affairs
The White House
Washington, D. C. 20500

Dear Mr. Fuller:

On behalf of the Mortgage Bankers Association of America, I am writing to you in your capacity as coordinator for the implementation of the recommendations of the President's Private Sector Survey on Cost Control (Grace Commission) to express our opposition to implementation of a recommendation that was made by a Commission Task Force but was not adopted by the Commission, that we believe will change the Veterans Administration's (VA) Home Loan Guaranty Program in a significant and harmful way.

In the draft report of the Commission's VA Task Force, a tentative recommendation was made that the VA Home Loan Guaranty Program change its customary practice of acquiring title to most foreclosed properties securing VA guaranteed loans and, instead, pay the guaranty amount. As the originators of the bulk of all VA guaranteed loans, when we became aware of this tentative recommendation in May, we wrote to the Commission expressing our opposition. We believe that if this change in current practice was made, there would be an increase, rather than a decrease, in costs to the VA, and the change could very well result in a diminished and more costly supply of mortgage credit for veteran borrowers.

The Commission then modified the Task Force recommendation prior to including it in the final Commission report to the President. The final recommendation of the Commission is that VA acquire properties at foreclosure sales only when it is in the best interest of the taxpayers. The report does qualify this recommendation, however, with the statement that property should only be acquired in a true exception situation when justification can be made on a case-by-case basis. We believe that VA is following such a practice currently in foreclosure cases and that the economics in most situations compel the decision by VA to acquire the property for subsequent re-sale as a way of reducing potential losses.

It is our understanding, however, from press reports that the Administration has determined that VA should cease acquiring properties in all or almost all foreclosure situations and simply pay the guaranty amount, as was recommended tentatively by the Commission's VA Task Force.

Cost Increases Rather Than Savings

Our assertion that a non-acquisition policy would result in increased costs to the VA rather than savings can be readily demonstrated using the same FY 1982 statistics used by the Commission in its final report. Under current law, when a VA loan goes into default, the VA can pay the lender the guaranty amount, in which case the VA has no further obligation to the lender, or VA can acquire title to the property and subsequently sell the property to recoup part or all of VA's loss. In FY 1982, the VA acquired 10,150 units. In FY 1982, VA also experienced an average loss on acquired property of $6,700 per unit, for total losses of $68.005 million on the 10,150 units acquired. On the surface it appears that VA could avoid the $6,700 per unit loss by not acquiring properties. However, then VA would be obligated to pay the guaranty on each foreclosed loan. The average guaranty amount for those 10,150 properties VA acquired in FY 1982 was $16,675. Multiplying those two figures produces a total of $169.25 million. Thus, if the non-acquisition policy was implemented, the VA would spend $169.25 million to save $68.005 million. Under current law and regulations governing the Home Loan Guaranty program there are no other options available to VA. Either VA must pay the guaranty amount or it must acquire title to the property and reimburse the lender. The latter option, using the Commission's statistics, cost VA $68 million, the former would have cost $101 million more. We do not understand how the Administration could conclude that the VA could save money employing the former option.

Impact on Veterans

The increase in average claims from $6,700 to $16,675 severely impacts on veterans. The full amount of this payment to lenders is charged as a debt against the veteran and collected by the Government. Currently, in 25 percent or in one of every four cases, the veteran who loses his home is not indebted to the Government because the value of the property equals or exceeds the outstanding loan balance. Instead of this current situation, the Administration's policy change would result in debts being established against all veterans who experience the trauma of foreclosure.

The shift of risk involved in a non-acquisition policy, and any resulting losses to the lending community, would necessarily result in less opportunity for the veteran to obtain housing finance and in higher costs of borrowing for the veteran.

A VA policy of not acquiring foreclosed properties would drastically curtail interest on the part of lenders in investing in VA loans in the future. Those lenders willing to make VA loans would be forced to impose more stringent underwriting requirements on veteran borrowers. Consequently, many veterans who could qualify for financing under the VA's credit guidelines would be unable to satisfy the lender's necessary additional requirements.

One of the most valuable benefits to the veteran of the VA home loan program is the unique no-down payment feature. A veteran may now buy a home with no-down payment, providing his or her income is sufficient to support payments; the VA program is, in fact, the only home mortgage lending program that carries a no-down payment feature. If lenders had to assume an increased risk on default, they would be unwilling to make a VA loan without the equity of a down payment.

Mr. Craig Fuller
January 11, 1984
Page Three

If the VA abandons its tradition of accepting title to property, lenders may be forced to try to recover the added losses on VA foreclosures by increasing the discount points to the seller on new loan transactions. Interest rates on conventional and FHA mortgages float with the market and do not require as many discount points.

When the points required to compensate the lender for the recommended change in the VA's policy for acquiring properties are added to the points resulting from the administered VA interest rate, we fear that the veteran will be priced out of the market.

We strongly urge that current VA practice in foreclosure cases remain unchanged. Undoubtedly, there may be ways for the VA to tighten up its property holding and disposition procedures so as to increase the efficiency of its operations and reduce the losses to the Home Loan Guaranty Fund. But any wholesale change in the current practice will not eliminate the problem of losses suffered on disposition of foreclosed properties. We have just been through extremely trying economic times where a sharp increase was seen in both mortgage defaults and foreclosures. It is an unfortunate consequence of the severe recession the country is only now recovering from that the VA Home Loan Guaranty Program has a large inventory of acquired properties at this time. The VA, which has a structure in place to handle property acquisition, maintenance, and disposition, is better equipped than many individual lenders to handle the difficult task of dealing with the lingering effects of the past recession. Preemptorily shifting the burden to private lenders, who in turn will be forced to recover their increased costs from veteran borrowers entering the home market in 1984 and beyond, is an unwise and ultimately shortsighted answer.

Thank you for your consideration.

Sincerely,

Felix M. Beck

Felix M. Beck
President

FMB/en

Chairman SIMPSON. Jim Magill, please.

Mr. MAGILL. Mr. Chairman, thank you for the opportunity to present the views of the Veterans of Foreign Wars of the United States with respect to the VA Home Loan Guaranty Program. We consider this program one of the most beneficial programs administered by the VA, and should continue to enjoy the full support of the Congress and the administration.

We would at this time like to voice our concern over an administration proposal which would direct the VA in the future not to acquire foreclosed properties and the financial problems facing the revolving fund. Although this proposal would seem to be cost effective, we believe it is a quick-fix solution and would prove more costly in the long run.

We also believe the adoption of this proposal would make it more difficult for veterans to obtain home loans, especially Vietnam veterans.

With the financial problems of the revolving fund, we question its wisdom in foregoing a proven source of income.

Finally, Mr. Chairman, we believe all efforts should be made in helping veterans remain in their homes.

We therefore support the provisions of S. 1922. We also support the provisions of S. 2265.

This concludes my statement. And I'll be happy to respond to any questions you may have.

Chairman SIMPSON. Thank you very much, Jim. Always appreciate having your views.

[The prepared statement of James N. Magill, special assistant, national legislative service, Veterans of Foreign Wars of the United States, follows:]

VETERANS OF FOREIGN WARS OF THE UNITED STATES

OFFICE OF THE DIRECTOR

PREPARED STATEMENT OF

JAMES N. MAGILL, SPECIAL ASSISTANT
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

WITH RESPECT TO

VETERANS ADMINISTRATION HOME LOAN GUARANTY PROGRAM

WASHINGTON, D. C. FEBRUARY 29, 1984

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

Thank you for the opportunity to present the views of the Veterans of Foreign Wars of the United States relating to the Veterans Administration Home Loan Guaranty Program. The VFW is appreciative of the Chairman for holding this hearing, demonstrating his and the Committee's continuing concern for our nation's veterans.

Mr. Chairman, the VFW considers the VA Home Loan Guaranty Program as one of the most successful and beneficial programs available to veterans. This popularity is evidenced by the fact that just last year the VA approved its 11 millionth loan and, according to the VA, home purchases by veterans and active duty service members under the VA home loan program more than tripled in 1983 over 1982. We believe this program should continue to enjoy the full support of the Congress and the Administration.

Mr. Chairman, we are still concerned with the solvency of the VA Loan Guaranty Revolving Fund. The rapid depletion of this fund, brought about by the high foreclosure and property acquisition rate over the last few years, may soon require an

★ WASHINGTON OFFICE ★
VFW MEMORIAL BUILDING ● 200 MARYLAND AVENUE, N.E. ● WASHINGTON, D.C. 20002 ● [illegible]

emergency request for additional funding. In part, because of this high foreclosure rate, the Administration is proposing the VA implement a "Grace Commission" recommendation and opt as policy to pay off the guaranteed portion of a loan during foreclosure proceedings and permit the lender to take possession of the property in order to reduce VA property acquisition costs. Information available to us indicates that while in the short-run this proposal certainly would appear cost-effective, in the long-run it would prove more costly to the VA. Under current VA foreclosure proceedings the VA most often pays the lender an average of $58,000 and takes possession of the property, but, after resale, the VA suffers an average loss of $9,500 per house. By just paying the guaranteed amount of the loan, the VA would expend approximately $19,500 per property. However, one must not be misled by the "Grace Commission" recommendation in that while showing a reduced VA outlay from $58,000 to $19,500 for the next few years, once all VA properties have been disposed of the VA will be averaging an outlay of $19,500 per house instead of the current net loss of $9,500. In addition, the VA would lose a source of income derived from holding these properties. One must not look for the short-term solution but seek a resolution which will be long-lasting. We believe the VA would be very short-sighted to dissolve itself of all properties to show a "quick-fix" while foregoing a proven source of income for the revolving fund.

We also believe the implementation of this particular "Grace Commission" recommendation could be detrimental to veterans seeking a VA guaranteed home loan. According to the Mortgage Bankers Association, the adoption of the Commission recommendation may cause veterans to suffer by bringing about higher down payment requirements in addition to causing higher income standards to be met and higher loan origination points. Certainly, the primary group effected by these actions would be Vietnam veterans attempting to purchase their first home.

While in our opinion there may be no one clear-cut answer to resolving the financial problems of the Revolving Fund, we believe the compromising of the many proposed solutions could prove productive. Again, one suggestion we believe should be considered is the returning of funds generated by the "users fee" on new VA loans to the VA rather than the general treasury. While we recognize that these are "cost-savings" funds and their return to the VA would require the imposition of similar cost-savings in other programs, it is ironic to us that funds raised specifically from the veteran population cannot be used for the benefit of veterans seeking like benefits. Instead we are faced with the prospect of seeking increased appropriations from the Congress in order to resolve the same difficulties.

Mr. Chairman, as we stated previously no single solution will solve the problems facing the Revolving Fund and likewise no one institution should singularly shoulder the blame for the current situation. While the banking community may want to more closely scrutinize a loan applicants ability to meet the responsibilities of a home loan, the VA at the same time may want to be more descretionary in which properties it decides to acquire. We believe the recent economic conditions should also be taken into consideration when assessing the plight of the revolving fund. Had unemployment not been at such staggering levels, certainly the amount of VA home acquisitions would not be so high. I am sure Mr. Chairman, you will agree the bottom line is providing for veterans the best possible opportunity for homeownership. With economic improvement and the Mortgage Banking Community and VA working together in attempting to keep veterans in their homes during periods of hardship, all participants in the process will benefit. With respect to the effect of last year's Congressional action freeing the FHA interest rate on the VA Home Loan Guaranty Program, we believe it is too pre-mature to make an accurate assessment. Currently, the housing market is strong and it appears the recovery will continue. However, should the market decline and become tight, we foresee veterans paying more points and lenders being more reluctant to grant loans under the VA program.

Finally Mr. Chairman, in your letter of invitation you requested our remarks on two pieces of legislation relating to the VA Home Loan Program. S 1922, the "Veterans' Housing Foreclosure Assistance Act of 1983", introduced by Senator Arlen Specter, would amend Title 38 to authorize the Administrator of Veterans' Affairs to provide mortgage assistance to veterans with loans guaranteed by the VA in order to avoid foreclosure on such loans. As stated previously, we believe every effort should be made in helping the veteran remain in his home and avoid the far reaching social and financial effects of foreclosure. We support this legislation, but encourage the VA to be extremely cautious in offering such a plan in a situation where repayment is not even a remote possibility.

S. 2265, introduced by the Honorable Alan Cranston along with Senators Randolph, Matsunaga and DeConcini of the Senate Veterans Affairs Committee would increase by 27 percent, from $27,500 to $35,000, the maximum amount of the VA loan guaranty entitlement available to a veteran for a conventional home, a single-family residential unit in a condominium, or a farm residence. The bill would also increase by 10 percent, from $20,000 to $22,000, the maximum guaranty for purchases of manufactured homes. We support both these provisions in S. 2265 as realistic and needed improvement in the VA Home Loan Program.

Mr. Chairman, appended to my statement are a number of resolutions, adopted at our most recent National Convention addressing issues pertinent to this hearing. They are:

Resolution No. 620 entitled "VA Home Loan Assistance

Resolution No. 713 entitled "Investigate Appraisal Fee And Points For GI Loans

Resolution No. 770 entitled "Veterans Administration Home Loans

This concludes my statement. I will be happy to respond to any questions you may have.

RESOLUTION No. 620

VA HOME LOAN ASSISTANCE

WHEREAS, the current depressed state of the economy has brought about increasing unemployment among veterans; and

WHEREAS, high unemployment has caused veterans, as well as others, to be forced from their homes because of their inability to meet payments on them; and

WHEREAS, we believe veterans should receive priority assistance that will enable them to maintain payments on and keep their homes; and

WHEREAS, the Administrator of Veterans Affairs is authorized to assist veterans, through various means, to keep their homes; now, therefore

BE IT RESOLVED, by the 84th National Convention of the Veterans of Foreign Wars of the United States, that the Administrator of Veterans Affairs be actively encouraged to liberally assist veterans to keep their homes; and

BE IT FURTHER RESOLVED, that we seek the introduction and passage of legislation to expand the authority of the Administrator to assist veterans to keep their homes during periods of high unemployment.

Adopted by the 84th National Convention of the Veterans of Foreign Wars of the United States held in New Orleans, Louisiana, August 12-19, 1983.

Resolution No. 713

INVESTIGATE APPRAISAL FEE AND POINTS FOR GI LOANS

WHEREAS, the appraisal fee charged to veterans on GI Home Loans has tripled that which was charged World War II veterans; and

WHEREAS, many of the appraisals made by the GI Home Loan appraisers are a duplicate of that made by the lending institutions; and

WHEREAS, the points charged to the seller on a GI Home Loan is only passed on to the veteran; and

WHEREAS, many veterans who have GI Home Loans and had paid the additional points and have an opportunity to re-finance at a much lower rate of interest are now being charged additional points that make the cost of financing far beyond reason; and

WHEREAS, the GI Home Loan program was intended to assist the veteran in purchasing a home at a lower rate of interest; and

WHEREAS, the charging both the seller and the veteran the interest points that are of direct benefit to the lender; and

WHEREAS, the duplication of charges for appraisal fees provides a hardship to the veteran attempting to purchase a home; now, therefore

BE IT RESOLVED, by the 84th National Convention of the Veterans of Foreign Wars of the United States, that we request the Veterans Administration or the Congress of the United States to investigate the procedures used in establishing appraisal fees, appraisal assignments and the determination of the points charged on GI Home Loans that prove to be an overcharge to the veteran and are not in accordance with the original intent of the GI Home Loan program.

Adopted by the 84th National Convention of the Veterans of Foreign Wars of the United States held in New Orleans, Louisiana, August 12-19, 1983

Resolution No. 770

VETERANS ADMINISTRATION HOME LOANS

WHEREAS, legislation is advancing in the Congress whereby Federal Housing Administration (FHA) loans will bear a local buyer/lender negotiated rate of interest instead of a nationally fixed rate; and

WHEREAS, the passage of such legislation would serve to make Veterans Administration (VA) fixed rate home loans substantially less attractive to sellers and lenders; and

WHEREAS, VA home loans are a substantive part of the benefits "package" afforded those who have honorably served their nation in the Armed Forces; and

WHEREAS, the maintenance of a competitive and viable VA home loan program is very necessary in order for veterans to continue to receive meaningful benefits in recognition of their service; and

WHEREAS, changes in the VA home loan program such as granting the VA Administrator the ability to (a) independently set VA home loan rates; (b) exercise greater latitude in the VA home loan guarantee percentage/maximum amount; (c) authorize veterans the option to engage the service of a buyer broker; (d) authorize the subsidization of VA home loan interest rates, and other program improvements, may strengthen that program; now, therefore

BE IT RESOLVED, by the 84th National Convention of the Veterans of Foreign Wars of the United States, that we seek the introduction and passage of legislation that will serve to maintain the VA home loan program as the most viable and desirable means of home financing available.

Adopted by the 84th National Convention of the Veterans of Foreign Wars of the United States held in New Orleans, Louisiana, August 12-19, 1983.

Resolution No. 770

Chairman Simpson. Rick Heilman, please.

Mr. Heilman. Yes, sir. Thank you, Mr. Chairman. I will summarize my statement.

With regard to S. 1922, as we've heard this morning it would authorize a 2-year program of selective mortgage assistance in the form of repayable loans to veterans whose VA guaranteed loans have been foreclosed upon.

I am aware from your comments this morning, Mr. Chairman, that you are concerned that a program such as this might resemble or be duplicative to ongoing efforts that the VA might be now doing in that same area.

I did pick up on one point that Mr. Sato made. I want to make sure that it is underscored and in the record. And that is the recent IRS policy to regard indebtednesses to the Federal Government, including the VA, that may have been waived fully or in part as gross income and therefore taxable for all beneficiaries. I am not just sure how this would impact on a veteran, say, who has received assistance from the VA whose loan is being refunded, as the term is used, so that he can continue in that home. I'm not sure if in fact at the same time he would be hit with a tax liability because of the fact that the refund or the forgiven indebtedness was all of a sudden part of his gross income.

I think that should be looked into as perhaps S. 1922 would not put an increased burden on a veteran in terms of an additional loan to be repaid.

With regard to S. 2265, we do support increasing the guaranteed amounts on conventional loans. Housing costs have increased with the last 3 and 4 years, and if it is your opinion and the committee's opinion that increasing the guaranty would make the program more attractive to lenders and be more beneficial to veterans, we're hoping you would give it favorable consideration.

Though you didn't cite this measure in your invitation to testify, Mr. Chairman, as you do know, S. 2264 is pending in your committee. It relates to increases in the specially adapted housing grants for certain severely disabled service-connected veterans. And we would ask that you give it consideration as you look at the bills relating to housing benefits.

One final point with respect to the recommendation of the Grace Commission and the policy change that was reflected in the fiscal year 1985 budget. We are pleased that this decision has been indefinitely postponed pending this so-called nationwide survey or Government-wide survey of its impact. Obviously, everyone is aware that the IG and CBO, with possibly some exceptions, have been generally critical in terms of the cost saving nature of this recommendation and the possible adverse impact it might have on the program down the road.

And we are thankful for your oversight in this area and we know you'll give it very careful consideration.

Thank you.

Chairman Simpson. Thank you, Rick. I do appreciate the way you follow the hearing. And that one bill is in the Banking Committee; we're seeking jurisdiction over it.

[The prepared statement of John F. Heilman, national legislative director, Disabled American Veterans, follows:]

PREPARED STATEMENT OF JOHN F. HEILMAN, NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

On behalf of the 847,000 members of the Disabled American Veterans, may I say that we appreciate this opportunity to present our views on legislation and issues relevant to the Home Loan Guaranty Program of the Veterans Administration.

S. 1922

Mr. Chairman, the pending bill, S. 1922, the Veterans' Housing Foreclosure Assistance Act of 1983, was introduced in the Senate on October 5, 1983 by your Committee colleague, Senator Specter, for the purpose of authorizing the Administrator of Veterans Affairs, at the Administrator's discretion, to provide mortgage payment assistance to veterans who have home loans, guaranteed by the VA, in danger of foreclosure.

Under the terms of the bill, a two year program of mortgage assistance is authorized in the form of "repayable loans" to veterans who have become delinquent in payments on home loans previously guaranteed by the VA under Section 1810 or 1819 of Title 38, U.S.C.

In order to qualify for such assistance, the payment arrears must have been in existence for at least six months on a VA guaranteed loan of the current residence of the veteran. Furthermore, delinquency of payments on the part of the veteran must have been caused by the veteran's unemployment, or because of a substantial reduction in household income caused through no fault of the veteran (as defined in regulations to be prescribed by the Administrator).

The bill stipulates that the extension of this discretionary assistance shall also be contingent upon the Administrator's determination that the veteran will be able to resume payment on the primary loan within six months of receiving assistance.

The bill does define, for the purpose of the assistance provided, that the term "veteran" shall include the surviving spouse of a deceased veteran if the spouse was a co-obligor of the primary loan.

The assistance provided by the VA shall be advanced to the holder of the primary loan (and not to the veteran) and although the Administrator may make more than one loan to a veteran, the total amount of loan assistance provided may not exceed the sum of $8,400. Repayment of the loan by the veteran to the VA shall be accomplished no later than four years after the date of the last loan provided, and such repayment shall include interest charges at a rate lower: (a) than the maximum rate in effect for loans guaranteed under Section 1810(a)(1) of Title 38, U.S.C. or (b) the rate on the primary loan itself.

Mr. Chairman, there is no doubt that one disastrous effect of our nation's troubled economy and high rate of unemployment is a significant increase in the number of delinquent payments on residential mortgages -- many resulting in loan foreclosure. Veteran homeowners have not been immune to this trend.

According to the VA, within the first six months of 1983, 10,000 VA guaranteed home loans were foreclosured upon by lending institutions. Though we have not seen data applicable to the balance of 1983, we assume that it is comparable. This would represent a foreclosure rate that is up some 30% over the preceding year. While the VA's Home Loan Guaranty Service does take steps to prevent unnecessary foreclosures, obviously, more needs to be done.

In our opinion, the pending legislation offers a viable approach at no cost to the government. In fact, through its process of selective, repayable loan assistance in only those cases where foreclosure can be avoided, S. 1922 carries a potential cost-savings -- for the relief extended to veterans would be more than offset by the higher cost presently incurred through paying claims to lenders, or through assuming title, improving and selling acquired properties.

Mr. Chairman, as you are aware, the provisions of S. 1922 are identical to those embodied in Section 2 of H.R. 2948, the Veterans' Housing Benefits Amendments Act of 1983, which was passed by the full House of Representatives on May 23 of last year. In keeping with our position taken on the House passed measure, we urge your Committee to give favorable consideration to the pending bill.

S. 2265

The bill S. 2265, introduced by Senator Cranston and co-sponsored by Senators Randolph, Matsunaga and DeConcini on February 7 of this year, through appropriate amendment of Sections 1810, 1811 and 1819 of Title 38, U.S.C., proposes to:

1. Increase by 27%, from $27,500 to $35,000, the maximum amount of Veterans Administration Loan Guaranty entitlement available to a veteran for the purchase of a conventional home, a single family residential unit in a condominium, or a farm residence, and
2. Increase by 10% from $20,000 to $22,000, the maximum VA guaranty provided for purchase of a mobile, or "manufactured" home.

As you know, Mr. Chairman, the VA Home Loan Guaranty is designed primarily to act as a "substitute" for the down payment that a veteran otherwise would be required to pay to a lending institution. The government's "guaranty" -- presently 60% of the loan amount or $27,500, whichever is the lesser, for conventional housing and condominium apartments and 50% or $20,000, whichever is the lesser, for manufactured homes -- serves to assure a high rate of popularity with, and participation in, the loan guaranty program by veterans and lending institutions alike. (Over 11.5 million home loans have been guaranteed by the VA since 1944; the 245,000 loans guaranteed by the VA in Fiscal Year 1983 was double that for Fiscal Year 1982.)

The above cited home loan guarantees were last increased to their maximum amounts in 1980. During the intervening four years, the cost of new home construction and purchase have increased substantially. Data provided by the National Association of Home Builders indicates an approximate 25% increase in the median cost of conventional housing -- from $64,600 in 1980 to $80,400 in 1984. Manufactured housing costs have increased approximately 10% during this same time frame.

Mr. Chairman, it would appear that the provisions of the pending bill, S. 2265, propose adjustments in the maximum VA loan guaranty amounts in keeping with the statutory 60% and 50% loan amount ratios of current law. We therefore do support favorable consideration of this legislation by the Committee.

S. 2264

Mr. Chairman, though you did not cite S. 2264 in your letter of invitation to testify during today's proceedings, the measure does relate to VA housing benefits, as well as to a mandate approved by the delegates to our 1983 National Convention which has been the subject of recent discussion between the DAV and your own Committee staff.

Introduced in the Senate by Senator Cranston and co-sponsored by Senators Randolph, Matsunaga and DeConcini, S. 2264 proposes to increase the rates of specially adapted housing assistance offered to certain categories of severely disabled, service-connected veterans (Chapter 21, Title 38, U.S.C.).

As the Committee is aware, the VA currently administers two programs which provide assistance to veterans who, because of the severe nature of their service-connected disabilities, require certain adaptations and modifications in their homes in order to have safe access and egress and otherwise live in a natural, comfortable environment.

This assistance is in the form of: (1) a one-time grant not to exceed $32,500 for service-connected veterans who suffer from bilateral lower extremity losses, or various combinations of blindness and single and double extremity losses and other disabilities that prevent natural balance, propulsion and locomotion, and (2) a one-time grant not to exceed $5,000 for veterans who suffer from service-connected bilateral blindness or the loss or loss of use of both upper extremities.

The above cited grant of $32,500 was last adjusted to its present amount by virtue of Public Law 97-66, enacted in October of 1981. Prior to that time, the award amount was $30,000.

The smaller grant of $5,000 has not been adjusted since its creation by the Congress which occurred in October of 1980, through the enactment of Public Law 96-385.

The bill S. 2264 would authorize, effective 10/1/84, grant adjustments of approximately 17% and 10%, increasing them from $32,500 and $5,000, to $38,000 and $6,000, respectively.

Mr. Chairman, the housing cost increases experienced during the last four years mentioned in conjunction with S. 2265 argue similarly for the goals proposed in S. 2264. In the case of the larger grant, the assistance rendered is designed to represent 50% of the total cost borne by the veteran. At its present amount and in today's market place, the grant falls short of this ratio.

We therefore ask that you and your Committee give favorable consideration to this important measure.

* * *

Mr. Chairman, with respect to the VA's Loan Guaranty Revolving Fund itself, the DAV was pleased to note the indefinite postponement of a recommendation first put forth by the President's Private Sector Survey on Cost Control, the so-called "Grace Commission", and later contained in the Fiscal Year 1985 VA budget request. I am, of course, referring to the policy change wherein it was indicated that the VA would respond to foreclosures by paying lending institutions the guaranteed portions of loans, rather than by assuming title to the properties for future resale (as has been the case in the vast majority of defaults).

As you know, Mr. Chairman, both the VA's Office of Inspector General and the Congressional Budget Office (CBO) have recently offered reports critical of this proposed policy change. According to the Inspector General and CBO, title acquisition and resale of foreclosed mortgages by VA is more cost-effective than would be the simple payoff of guaranteed portions of loans.

Mr. Chairman, we urge the continued, active oversight of you and your Committee on the status and operation of the Loan Guaranty Revolving Fund.

This completes my statement, Mr. Chairman. Again, on behalf of the membership of our organization, I want to thank you for extending us the opportunity to participate in today's hearing.

Chairman Simpson. Please, Dennis Rhoades. Nice to have you with us.

Mr. Terzano. Mr. Chairman, if I may.

Chairman Simpson. Yes.

Mr. Terzano. I would like to commend you on having these hearings and commend your staff and the staff on the minority side for once again having an excellent set of hearings.

My task this morning is a relatively simple one, but it's one I take great pleasure in, and that is introducing Dennis Rhoades formally to this committee.

As you know, after over a decade of public service, Dennis has come on board as Vietnam Veterans of America's executive director.

I would take exception with one of your comments, if I may, Mr. Chairman.

Chairman Simpson. People have done that. Please.

Mr. Terzano. When it comes to employment programs for veterans, nobody tutors Mr. Dennis Rhoades. As I'm sure you're aware, Dennis is considered the architect and the father of the Disabled Veterans' Outreach Program, the Targeted Technical Assistance Program, and the Vietnam veteran's emergency jobs bill that was signed into law last year was an idea of Dennis' that he had been pushing for since 1978.

VVA is very fortunate in having Dennis come on board. We are very lucky.

And now that I have taken up probably a good portion of Dennis' time, I hope you will give him his full 5 minutes.

Chairman Simpson. Well, I thank you.

And indeed, I do know of your credentials. And it is good to have you here.

Mr. Rhoades. Thank you, Mr. Chairman. I'm going to try to get away from my image as a Government employee by being as brief as possible.

VVA, of course, has voiced its concern over this matter of the Grace Commission and what it proposed to do to the VA Home Loan Guaranty Program. I think it's understandable why because it is our membership, it is the Vietnam vet who is most likely to be the first-time homebuyer. So it is going to have a very direct effect upon the people we represent, our membership, and it goes to the very heart of the concerns of our membership.

Having been involved with employment and economic affairs of veterans for 10 years, I've watched the economic roller coaster the general economy has been on. I've also watched the Vietnam vet on that roller coaster.

My feeling is that the administration seems to want to change the Home Loan Guaranty Program and blaming it perhaps on the lenders not qualifying, not being strict enough with the veteran as far as credit, blaming it perhaps on every reason except the reason I think in principal is why we have defaults, and that is the economy.

So what we ask and what we urge the committee to do is to take a long historical look at the Loan Guaranty Program. It has operated successfully for well nigh 40 years. We think the economic recession is basically responsible for the rise in defaults and foreclosures, and we would ask legislative forbearance and regulatory forbearance before we start.

We have two points to make, basically, in our testimony.

The first is that if the VA were not permitted to acquire properties as it currently does, we feel that, as Dorothy Starbuck confirmed, this would put a chill on the mortgage market. And we think it would particularly chill the mortgage market in the inner city where a lot of black and hispanic veterans live and in these rural areas, such as Wyoming.

The second thing that we pointed out in the testimony is that we think there needs to be a lot of concentration on the VA's part on forbearance. We believe, for example, that the regulations, VA regs, ought to be changed so that section F which governs forbearance in the lenders' handbook is incorporated as a covenant in the mortgage instrument, thereby insuring that all lenders by covenant exercise a consistent kind of forbearance when a veteran starts defaulting on a note.

As for the two bills, let me just briefly say about S. 2265, I think you can talk about average cost of homes, but there are areas like Los Angeles where I just came from where 27.5 simply is not enough in a loan guaranty. And it's either a choice of raising it or doing some kind of indexing.

We generally support S. 1922.

And that concludes my comments.

Chairman SIMPSON. Thank you very much. And I do want to again welcome you and on behalf of Senator Cranston who I know would want to have been here to welcome you today as a native Californian and a friend and adviser of his.

So it's good luck to you in your new job. You know Senator Cranston and I, Al was the principal sponsor, I'm a cosponsor of the granting of a Federal charter to the Vietnam Veterans of America. And I think it's time in your efforts that that be recognized, although certainly you're quite pesky at times.

Mr. RHOADES. Well, we certainly appreciate the bipartisan support that this Committee has shown to our organization, Mr. Chairman.

Chairman SIMPSON. Well, I say, I was honored to speak at your national convention. And that was one of the most—it was an extraordinary experience for me. And I was greeted with courteousness and we had a spirited exchange. It was very gratifying. I enjoyed it thoroughly, I really did.

Mr. RHOADES. We appreciated having you, Mr. Chairman.

[The prepared statement of Dennis K. Rhoades, executive director, Vietnam Veterans of America, follows:]

PREPARED STATEMENT OF DENNIS K. RHOADES, EXECUTIVE DIRECTOR, VIETNAM VETERANS OF AMERICA

Good Morning, Mr. Chairman. My name is Dennis Rhoades, and I am Executive Director of Vietnam Veterans of America (VVA). VVA appreciates this opportunity to voice our concerns and share our views on this most important subject of proposed changes in the manner in which the Veterans Home Loan Mortgage Guaranty Program is administered.

As you may be aware, Mr. Chairman, several weeks ago Vietnam Veterans of America publicly voiced our opposition to OMB's proposed changes in procedures governing foreclosures and acquisitions of property in the the Veterans Home Loan Guaranty Program. We believe a full review of such proposed changes by Congress is both warranted and necessary. The changes proposed by the Office of Management and Budget, and very nearly foisted on the Veterans Administration for implementation as of March 1, would have radically altered and truncated the Veterans Home Loan Mortgage Guaranty Program by administrative fiat.

What the Office of Mangement and Budget has proposed is to prevent the Veterans Administration from acquiring foreclosed properties, as is the Administrator's statutory right, forcing lenders to dispose of such properties. Most of the lenders who currently participate in the program, however, are not organized to be in the business of property disposition. They would be forced to incur substantial acquisitions, maintenance, and disposition expenses, IF they were to continue as participants in the program. I stress the word "IF", Mr. Chairman, because it is our understanding that many such financial institutions would not choose to participate in such a radically altered program, or, to so change the manner of their participation such as to drastically alter the program from what has existed in the almost forty years since enactment by the Congress.

Among other effects, OMB's proposed changes would have a chilling effect on loans with no down payment. These represent currently approximately sixty percent of loans made under the program. As the lending institutions would be subject to more exposure under the new guidelines, they will, quite naturally move to protect themselves by demanding more equity at the outset from the veteran, and tend to award loans only to veterans that bankers consider to be more affluent, and who do not live in "red-lined" areas.

We believe that this would thwart the original intent of the program which was to enable veterans of modest means to realize the American dream of becoming first time homeowners. It would have a particularly adverse impact on hispanic, black, and other minority veterans; those veterans who are in rural areas of the country; and, those veterans who reside in areas of declining industries and high unemployment.

The reluctance of lenders to participate and make loans to veterans in these areas under the proposed changed groundrules is understandable, as rapid disposition of properties in these areas may in fact be more difficult.

We would also point out that because the lender is more at risk under the proposed change, it is likely that the speed of movement toward foreclosure and seizure of the property from the veteran and evicting his or her family, will be greatly hastened. Vietnam Veterans of America believes that this is movement would be in exactly the opposite direction from Congressional intent in establishing the program in the first place.

It is in everyone's interest for the veteran to keep the house. The lender gets paid, the VA does not incur foreclosure costs, and veterans have the opportunity to work to make the American dream of home ownership a reality for themselves and their families. This was, and we presume still is, the Congressional intent in this program. For this reason, we believe that a great deal more emphasis needs to be placed, from the outset, on "Section F" of the "VA Lender's Handbook", regarding forebearance in situations where the default is beyond the veteran's control, or where the default can be cured with the cooperation of the parties involved.

As we stated at our press conference on February 1st, the recession was cruel enough to millions of American families, including Vietnam-era veteran families. In fact, it is widely recognized that the recession disproportionately affected veterans of the Vietnam war, who experienced generally higher unemployment. Now that the economic recovery has begun, it would be a cruel twist of government policy to close down the main avenue for veterans--and especially younger veterans--to become homeowners, based on higher foreclosures during (and in large measure due to) the last recession. Yet, this is exactly what is contemplated. Let there be no mistake, the OMB proposed change in policy may well deny home-ownership to tens of thousands of Vietnam-era veterans who were unable to buy homes during the recent recession, and who now hope to do so. In addition, the proposed changes may well increase the costs and expenses associated with the program, since reluctance by lending institutions to participate in the program may well trigger a "housing credit shortage area" determination pursuant to section 1811(b) of Title 38, thus requiring direct loans to veterans.

Vietnam Veterans of America recommends that the regulations be changed to incorporate "Section F" of the "VA Lenders Handbook" as a convenant in the standard mortgage instrument now used in the program. Further, VVA recommends that the Veterans Administration organize a special section in the Loan Guaranty Division of every Department of Veterans Benefits (DVB) in every VA Regional Office, that shall be responsible for implementing the policy and mechanisms of forebearance. This would include DVB working as a facilitator with the veteran and the lending institution, to reach solutions which meet everyone's legitimate interests during periods of difficulty. To be effective, the VA would need to stress to the veteran the existence and reason for the formal forebearance mechanism from the time of original application, and reinforce it at every step of the process.

It is crucial for the individual veteran to have it fixed in his or her mind not to wait if they are experiencing difficulty in meeting mortgage payments on time, for any reason. Rather, the veteran should be encouraged to communicate with the VA and the lending institution before the situation deteriorates, before the options open to all parties become increasingly limited. We would also recommend that the VA publish a fact sheet for every veteran, outlining how to structure legitimate alternatives to foreclosure and eviction.

In summary, Mr. Chairman, the Office of Management and Budget has moved to solve problems of the business of administering the Veterans Home Loan Guaranty Program by moving toward putting the program out of business. We believe the Congress, should further strengthen the Veterans Home Loan Mortgage to make first home ownership possible for the average veteran. The National Association of Realtors stated recently that purchasing a typical home now requires an income twenty percent above the national median. In 1977, the same home was affordable with an income seventeen percent below the median. When seen in this light, the Veterans Home Loan Mortgage Guaranty Program is more important than ever to America's veterans. Now in fact may be the time to make changes in the program, but to strengthen it, thus making it available to more of those who served when needed. The changes proposed by OMB would do precisely the opposite.

Vietnam Veterans of America is grateful to you, Mr. Chairman, for this opportunity to share our views with you and your esteemed colleagues on the Committee on Veterans Affairs. Thank you.

Chairman SIMPSON. Mr. Johnson, please.

Mr. JOHNSON. Thank you, Mr. Chairman. I, too, will attempt to be brief in my remarks this morning.

The association appreciates the opportunity to comment on the Home Loan Guaranty Program. Rather than attempting to review everything that I've covered in my prepared text, I'd like to address two areas of concern.

First, as are so many of the people here this morning, we are opposed to the implementation of the President's Private Sector Survey Recommendations regarding the VA acquisition policy. We believe that such a change will effect veterans in the mortgage market adversely, and it will necessitate more stringent qualifications for veteran home loans.

There is also the possibility that lenders are going to grow less tolerant of veterans who default on loans. As a result, that may speed the foreclosure process and the eviction of unfortunate veterans.

Additionally, we believe the President's Private Sector Survey Report presumes the VA will somehow be able to avoid payments of the substantial guaranteed amounts. As a result, that report has neglected to compare the anticipated savings against the requisite expenditures, which was done for us so ably this morning by the Congressional Budget Office.

We agree with those CBO estimates that the recommendation currently under consideration by the Veterans' Administration will, in fact, in the out years result in excessive spending by the VA on the Home Loan Program.

In summary, the association believes the acquisition policy that the VA currently has is a sound one and it demonstrates good stewardship of the Loan Guaranty Revolving Fund.

NCOA is pleased by the VA's decision to reserve changes in that program until these hearings could be held. We hope that the exploration of the program in these hearings will prove that those private sector survey recommendations should not be implemented.

The second area of concern that NCOA has this morning is on the Veterans' Housing Foreclosure Assistance Act.

As you know, Mr. Chairman, as you've said earlier this morning, that is the same bill that was passed by the House last year. NCOA would normally be reluctant to support such a program, believing as you do that it lacks fiscal responsibility; just almost like handing a drowning man a glass of water.

However, there is a potential in this program for great savings and for great benefit to the veterans. Both the Veterans' Administration and the Congressional Budget Office presented figures last year stating that the program would save from $7 to $12 million, and each this morning has said that such savings still potentially can be realized. In view of that savings potential, NCOA does support and strongly recommends the passage of the legislation and suggests that some provision be made in the bill to allow for its extension if those savings are realized.

That concludes my statement, Mr. Chairman.

Chairman SIMPSON. Thank you very much, Mr. Johnson.

[The prepared statement of Richard W. Johnson, Jr., director of legislative affairs, Non Commissioned Officers Association of the United States of America, follows:]

PREPARED STATEMENT OF RICHARD W. JOHNSON, JR., DIRECTOR OF LEGISLATIVE AFFAIRS, NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

Mr. Chairman and distinguished members of the committee, the Non Commissioned Officers Association appreciates this opportunity to express its views concerning the operation and proposed changes in the Veterans Administration Home Loan Guaranty Program. Before commenting on the two specific legislative proposals before the committee, including S. 1922, the "Veterans Housing Foreclosure Assistance Act of 1983" and S.2265, a bill to increase the maximum guaranty amounts, NCOA would like to take a few minutes to comment on other areas of interest in the loan guaranty program.

VA HOME LOAN GUARANTY PROGRAM

Since the program's inception under prior law more than 12,000,000 veterans have benefited from its provisions. Last year alone, under the current program, more than 285,000 veterans purchased homes with VA guarantees, including 53,000 active duty personnel. Very literally millions of veterans enjoy the benefits of home ownership because of this program.

The attraction of the home loan guaranty program to both buyers and sellers is largely attributable to its versatility. It has something for everybody. For the veteran it provides an opportunity to buy a home with little cash investment--in essence "no money down." Although the veteran must pay some closing costs and a loan origination fee, the dollar investment required is substantially less than in most other government or conventional loan programs. Additionally, veterans are not required to pay fees for private mortgage insurance (PMI) or fees for federal mortgage insurance.

Mortgage lenders have found veterans loans to be sound investments because the VA guarantees up to 60 percent of a loan to the limit of $27,500 under current law. Additionally, lenders have relied on the VA's policy of acquiring foreclosed properties as further assurance against a financial loss. This, of course, also works to the advantage of veterans because lenders are generally more liberal with loan qualification requirements due to the amount of protection the VA offers.

Investors and homesellers also derive certain benefits from the program. Without going into detail, investors have found the loans easy to resell because of the attendant guarantees and sellers have found veterans to be a reliable part of the marketplace.

Altogether, the Veterans home loan guaranty program has been a remarkable success. Both Congress and the Veterans Administration have been very responsive to the needs of veterans in this area and the collective effort is reflected in public law and federal regulation. NCOA is grateful to Congress and the VA for the efforts that have been made to keep the program current.

Grace Commission Recommendations

Notwithstanding the program's success, the President's Private Sector Survey on Cost Control (The Grace Commission) has recommended a major policy change in the program. According to the Grace Commission Report, the VA could reduce the program's cost by an estimated $225 million over the next three years if the VA abandons its current policy of acquiring and reselling homes that fall into foreclosure. As is the pattern in all Grace Commission findings the loan guaranty program has been compared to and evaluated with the most proximate private sector program, in this case private mortgage insurance. The Grace Commission however has neglected to discuss some of the major differences in the programs--differences which color the comparison.

Private mortgage insurance is required by most lenders on loans amounting to more than 80% of the purchase price of the home. Its cost is directly related to the loan value usually requiring premium payment ranging from 1/2 of one percent to as much as 3 percent depending on the amount of down payment. The PMI premium is usually financed with the house and paid in monthly installments. Its value is usually 20 to 25 percent of the loan.

The Veterans Administration loan guaranty is not a premium based program. Losses are paid from the loan guaranty revolving fund, an appropriated account of the VA. Under current law, the maximum loan guaranty amount is the lesser of 60 percent of the loan or $27,500.

Obviously, the VA's losses are going to be more substantial than those suffered by PMI companies because the VA is liable for a greater portion of the loans they guarantee and because the losses are not offset by premium receipts.

The Grace Commission reports the average loss per case by the VA is about $6,700 and, by comparison, say the average PMI loss per case is about $1,000. The VA's loss per case may continue to rise as home values and guaranty amounts increase. Nevertheless, the VA has done everything possible under the program to minimize the loss by acquiring the foreclosed properties and reselling them, albiet at a loss. Yet the actual loss is less than the guaranty amount.

It is distressing to know the VA currently has an inventory of 22,000 properties nationwide. It is even more distressing when considering that each of those properties represent a homeless veteran and his or her family. Moreover, nearly $1 billion is obligated to the purchase and maintenance of those homes until the VA can arrange their sale. Using the Grace Commissions figures, the VA will lose $140 million on the sale of those properties over the next three years. If the VA simply paid the guaranty amount, the loss would exceed $210 million over the same period, a difference of more than $70 million.

Private Mortgage Insurers, according to the Grace Commission, are smarter about acquisitions. It seems never to have occurred to the

Grace Commission that PMIs selective acquisition procedures are designed to minimize loss, not avoid it entirely. Still PMI losses are offset by premiums. Certainly PMIs are not going to acquire every home in foreclosure, particularly in areas where home sales are depressed. If the PMI can be reasonably certain its loss through acquisition and resale will be lower than its loss through payment of the insured amount then property acquisition makes sense. The VA's more extensive acquisition policy is an extension of the same logic. The VA is,in fact, losing about $9,000 per case on acquisition and resale but would lose over $19,000 per case if acquisitions were stopped and guarantees were paid.

The VA's current policy also works to the distinct advantage of veterans. First, lenders realize that current VA policy reduces their potential for loss. Accordingly, marginally qualified veterans receive the benefit of doubt from many lenders. NCOA believes a shift in acquisition policy will result in more stringent loan qualification requirements and perhaps the imposition of higher loan fees to sellers thus making VA loans less attractive. Second, when foreclosure is effected the VA does not require eviction of the veteran and his or her family thus allowing the veteran an extended opportunity to preserve his or her investment. Finally, any guaranty loss suffered by the VA becomes a debt to the veteran. The VA's proposed change in policy is not likely to result in an improved debt collection record but would place an additional burden on an already financially troubled veteran.

The VA currently recovers about 17 cents on each dollar of debt incurred by the veteran. Any remainder is usually forgiven and serves only to restrict a veteran's eligibility for future entitlements. This, too, may change.

An Office of Management and Budget directive to all federal agencies now requires the VA to report amounts of all forgiven debts (not just loan guaranty debts) to the Internal Revenue Service as earned income of the veteran. Veterans, as a result, will be required to pay income tax on the amounts reported by the VA. It does not take a wizard to see that such a reporting policy is somewhat absurd. If the veteran cannot afford to repay a VA debt, in all likelihood the veteran will not be able to pay the tax. At least the current VA acquisition policy minimizes the amount of the veterans debt.

Conclusion

In summary, NCOA believes the VA's acquisition policy is sound and should not be changed. The benefits it provides to veterans are outstanding and it demonstrates good stewardship of taxpayer funds by the VA. NCOA is pleased by the VA's decision to reserve such changes until their potential impact can be fully explored. We remain hopeful the exploration will prove the plan should not be implemented. Meanwhile, the VA budget must be adjusted.

Budget Impact

The number of foreclosures and acquisitions during the past two years have placed a great deal of pressure on the loan guaranty revolving fund. As a result the fund, which once regularly profited from the aquisition and sale of foreclosures, is now losing money because of the depressed housing market. While foreclosures and acquisitions will probably decline as the economy continues to improve, the immediate adequacy of the fund remains questionable. The status of the fund can be reasonably expected to improve when the sale of properties exceeds those newly acquired but it is unreasonable to expect recovery to take place before an additional appropriation is required to sustain the fund.

Additionally, in anticipation of the policy change, the VA has presented a budget request NCOA believes is inadequate to sustain the program. The request suggests the reduction of 136 Full Time Equivalent Employees (FTEE) at a savings of $3.9 million and a reduction of $1.11 million in obligations under the guaranty program. NCOA is not certain the proposed policy change justifies a 7 percent personnel cut in the program, but it is certain the program cannot be sustained at its current level of effectiveness if such cuts are imposed. At the same time, it is not likely that a $1.11 million savings in obligations can be realized. The Association therefore urges the restoration of these amounts to the VA budget request.

The Future

Finally, the VA and Congress must be mindful of the future in any changes made in the loan guaranty program. Recent changes in the FHA loan rate structure allowing FHA loans to be made at market interest rate rather than fixed rate is making FHA loans more attractive to lenders and sellers. The higher interest rates and the associated decline in loan discount points may result in reduce desirability of veterans loans. Although it is too early to tell, NCOA believes veterans' loans will remain competitive and highly acceptable to lenders. Still, even more caution must be exercised in making any changes in the loan guaranty program that may affect the market stature of veterans loans.

S-1922

Since 1980 the foreclosure rate on VA guaranteed mortgages has nearly doubled. As previously mentioned, the VA currently has an inventory of more than 20,000 homes that once belonged to veterans. To curb the loss experience, the House last year considered and passed H.R. 2948 the "Veterans Housing Benefits Amendments of 1983" which contained language similar to S. 1922, the "Veterans Housing Foreclosure Assistance Act." Both bills allow the VA to loan certain veterans up to $8,400 to avoid mortgage foreclosure on a guaranteed loan if there is a reasonable prospect the veteran will be able to repay the loan.

NCOA would normally be reluctant to support such a program believing it lacks fiscal responsibility. In this case however, the legislation is particularly well written both in allowing the VA discretionary authority on such loans and in allowing the loans only when repayment can be expected. Additionally, both the VA and the Congressional Budget Office have presented figures stating the program will save the VA money through avoidance of the foreclosure losses previously discussed.

In view of the savings potential NCOA strongly supports the legislation and recommends the two year program expiration date be changed to a program review date thus allowing the program to continue if the anticipated savings are realized.

S-2265

Since the last adjustment in the maximum loan guarantee amounts, there has been a marked increase in the average value of veterans home loans and in the general cost of housing. This effectively means that few lenders receive the protection historically offered by the VA.

Instead, lenders are proportionately insured for a percentage of the loan value. The last adjustment occurred when the average proportionate guaranty amount slipped from 44% to 35%. The increase provided by Congress raised the average guaranty to slightly more than 40%, an amount deemed sufficient to insure the availability of loan funds to veterans in areas where housing costs exceeds the averages.

The average loan guarantee has again dipped to 35% and in high cost areas is even lower. Additionally, housing prices and housing starts have increased rapidly as the nation continues its economic recovery. Without an adjustment in the loan guaranty amount, veterans may face some hardship in qualifying for home purchases and finding mortgage. Accordingly, NCOA is pleased to support the passage of S-2265.

Thank you.

Chairman SIMPSON. I have some questions, but before I ask those I'll recognize Senator Specter of Pennsylvania, a fine participating member of this full Committee on Veterans' Affairs, who has submitted the legislation that we have referred to from time to time this morning, always very positive except when I said—oh, no, excuse me.

So if you have any comments on that or have a statement, please feel free to go ahead with that, Arlen. Nice to have you.

Senator SPECTER. Thank you very much, Mr. Chairman.

I do have a statement which I would like to have placed in the record.

Chairman SIMPSON. Without objection so ordered.

Senator SPECTER. To save the committee's time.

I have a few comments.

I would be hopeful that the committee would act favorably on my proposal, Senate bill 1922, or on some modification thereof, to give help to the veterans. And I say that because of the substantial experience I have in my home State of Pennsylvania where there have been so many foreclosures, and so many foreclosures involving veterans.

Pittsburgh, PA, is the locale of the concentration of the steel industry. And its had enormous economic distress in Allegheny County. And that kind of distress extends to Johnstown and to many other parts of Pennsylvania.

One common pleas judge, which is our trial court, received national acclaim when he unilaterally stopped enforcing or stopped permitting the mortgage foreclosure laws to be enforced. He now sits on the State Supreme Court of Pennsylvania, an elected position.

Similar action was taken in Philadelphia County, suspending the Foreclosure Act. I believe that a careful analysis would show that there are really great strides to take and the veterans, in my judgment, are in a preferred position and ought to receive some additional help.

The security, I would submit, is excellent because the legislation could be crafted so that any advances become a lien on the property. And it may be that the legislation could be further crafted so that there would have to be sufficient equity in the property to assure the Government of repayment. But this is a no risk situation where in most of the situations there is a substantial equity.

And that's why I would ask, Mr. Chairman, that favorable consideration be given to this proposed legislation.

I certainly do commend the Chair for your diligence on this hearing and others. And it is a lonely job being a committee chairman. I just came from the lofty District of Columbia Subcommittee, which I chair, and it was similarly lonely being present for that hearing.

Chairman SIMPSON. Did your colleagues not come to assist you in your task?

Senator SPECTER. They did——

Chairman SIMPSON. They did?

Senator SPECTER [continuing]. Not come to assist me in my task. It is always difficult in dealing with Senator Simpson under ideal circumstances, but when dealing with the triple negative it is even more difficult.

Chairman SIMPSON. Wait till you see me dangle a participle.

Well, I do appreciate working with you, Arlen. You've produced some interesting legislation that we are looking at and processing. And you have obviously a tremendous commitment to American veterans. And chairing the District of Columbia Subcommittee and me chairing the Veterans' Affairs Committee we both know what hell is by now; that's for sure.

And I thank you for being here and we will give that bill every consideration. And I think you'd be interested in some of the remarks, pro and con, that have developed from the hearing. And if you have any written questions to be submitted, and I know Senator Cranston does, and so does Senator DeConcini, we will see that that is accomplished

I have just a couple of questions. Most—do you have any questions you wanted to ask, Arlen?

Senator SPECTER. No; I did not.

Chairman SIMPSON. OK, fine.

Most of the organizations have expressed their concern about the announced changes in the VA Loan Guaranty Program that were included; you've heard that. The chief concerns expressed about the proposal which would result in the VA paying guarantees in each case of foreclosure.

Do your organizations have concerns or do you want to make any comments briefly on other announced changes in VA policy regarding property management and disposition? Do you have any comments, just anything at this point on that?

[No response.]

Chairman SIMPSON. In your experience, and I know all veterans' organization really do assist their members, but I assume—I hope I am assuming correctly—that when you have a veteran of your membership involved in a default and foreclosure, that even, that if you find out about it that you are there to talk it over with him, to counsel with him. Is that true? Well, if it isn't, it ought to get true.

Mr. EGAN. Without knowing positively how often that takes place, I can assure you that that is true among the service officers in The American Legion.

Chairman SIMPSON. I think that would be a very important time for a veteran to have support of a veterans' organization of which he is a member, or even not a member, when he is going through the anguish and embarrassment of default and foreclosure.

Mr. HEILMAN. As you may be aware, Mr. Chairman, the DAV has an emergency relief fund that it makes available to not only members of the DAV but any VA claimant. And over the years we have expended literally hundreds of thousands of dollars in relief. And a good portion of that comes at a time when a veteran is losing his home or about to become delinquent in payments. So we do provide that type of relief.

Chairman SIMPSON. In your experience in assisting those who face this possibility of foreclosure, how do you rate the efforts of lenders of your knowledge and the VA in forbearance and working closely with the veteran in this time of extremity?

Mr. JOHNSON. It's been our experience that both the lender and the Veterans' Administration has used all manner of good judgment in the treatment of a veteran when he falls into default on the loan and through subsequent foreclosure action. Our worry is that if we change the program, if we increase the risk the lender must take, then that forbearance that they have previously demonstrated may disappear, that they will be less likely to tolerate any type of default on the part of the veteran, thus driving up the program costs and also driving the veteran out of the home more quickly.

Chairman SIMPSON. Yes, Dennis?

Mr. RHOADES. We believe it's been inconsistent, Mr. Chairman. Some lenders and some VA regional offices have been very supportive of the veteran in trying to help him through this period of difficulties. Others would simply foreclose as soon as possible and evict.

We think there needs to be consistency, particularly at the VA, and I think the VA is moving in that direction. But I think they will continue to need some encouragement.

Chairman SIMPSON. Well, I have a few more questions. I'll submit those in writing. I wanted to ask your thoughts about how you perceive this freeing of the FHA interest rates and where that may lead. It's been a short time since that legislation was passed, but I would want to know if you are aware of any impact that change has had on VA programs and veterans' abilities to obtain loans of VA guarantees as you look at the freeing of the FHA.

Has there been any impact there that you know?

Mr. **Egan**. We're not aware of any specific impact. It, as you say, has been a very short time since that went into effect. But we can expect since veterans comprise, as the banker said, 8 percent of all the mortgages, we have to believe that conventional and FHA representing the rest of them, place veterans in a somewhat isolated situation with regard to a submarket interest rate.

Chairman **Simpson**. Any other comments there?

Mr. **Magill**. We would have to somewhat go along with those same thoughts, sir. Right now the market appears to be strong. We question what will happen if we get into another bad period with mortgages being tight. We just think that right now is way too soon to make a judgment on it.

Chairman **Simpson**. I want to thank you very much for your appearance and your testimony. That is helpful.

[The responses of The American Legion, Veterans of Foreign Wars, Disabled American Veterans, Vietnam Veterans of America, and the Non Commissioned Officers Association to written questions submitted by Hon. Alan K. Simpson, chairman of the Senate Committee on Veterans' Affairs, follow:]

RESPONSE OF THE AMERICAN LEGION TO WRITTEN QUESTIONS SUBMITTED BY HON. ALAN K. SIMPSON, CHAIRMAN OF THE SENATE COMMITTEE ON VETERANS' AFFAIRS

Question 1. Do you believe that evidence exists or have you received a significant number of communications from your members that would indicate that the VA loan guaranty maximums of $27,500 on homes and $20,000 on manufactured homes are too low and that a significant number of veterans are currently unable to find willing lenders as a result?

Answer 1.

The short answer to this question is, no, we have not received substantial numbers of reports from our members suggesting a need for an increase in the VA guaranty. However, a more detailed analysis of what our members' experience with lenders has been would probably reveal that very few veterans - members or otherwise - are aware of the connection between lender interest in veterans and the level of VA guaranty. For this reason it is suspected that even if large numbers of veterans had poor experiences with lenders, they would attribute the problem to their own financial inability to purchase a home rather than to a need for the guaranty to be raised.

After having made a few speculative comments regarding how our members probably feel toward lenders,given their experience, there is more factual evidence suggesting that the current guaranty has been sufficiently high. In their statement to the Committee, the Mortgage Bankers of America (MBA) attach a chart - Exhibit 5 - showing the percentage of mortgage banker business tied up with VA mortgages. According to the MBA exhibit, the lowest percentage of VA mortgage originations in any year since 1975 is 70 percent. We have to believe that since at least 70 percent of all mortgage banker business in the last nine years is attributable to veterans even though veteran buyers constitute only 8 percent of the home buying market, the current guaranty has been very attractive to lenders.

What has been attractive in the past may not, however, continue to be attractive in the future. There are at least two reasons for this and they shall constitute an answer to your question regarding the freeing of VA interest rates.

Question 2. What do your organizations believe would be the effect on veterans ability to purchase homes with VA guarantees if the VA interest rate was freed?

Answer 2.

Last year when legislation was enacted freeing FHA interest rates, The American Legion expressed its concern that veterans, finding themselves isolated in the market, might find it harder to secure mortgages. This is because virtually every other category of buyer whether FHA or conventional would be required to pay interest rates as high as the market would bear. Since that legislation was enacted so recently, it is impossible to say with any certainty what effects on lender incentives for dealing with veterans will obtain. If there are measurable effects, and we suspect that there will be, it is wise to consider ways in which these effects can be neutralized. In fact, this is part of our reasoning in suggesting increases in the percentage of guaranty in exchange for reductions in interest rates below VA established rates.

As regards the desirability of VA rates themselves being freed as FHA rates were last year, we are categorically opposed to a change of this magnitude in the VA home loan program. Those favoring this type of move argue that buyers negotiating interest rates in the market place will be able to exact the most favorable rates possible from a highly competitive banking industry. We reject this argument, noting that veteran buyers stand at a decided disadvantage in the negotiating market place as against the expertise of banking professionals.

Additionally, proponents of freed interest rates point to a greater number of properties on the market owing to reduced points paid by sellers resulting from the freeing of interest rates. We submit that the VA program was intended and should continue to assist veteran buyers rather than seller speculators. Moreover the current limitation on the number of points the veteran is obligated to pay at closing has worked to the veteran buyer's benefit in the past, but might not if interest rates are freed.

Question 3. In your experience in assisting veterans who have faced the possibility of foreclosure, how would you rate the efforts of lenders and the VA in forebearing and working with veterans to prevent foreclosure?

Answer 3.

In a third question, we are asked how our claims representatives might rate the efforts of lenders and VA in forebearing and working with veterans to prevent foreclosure. As with the first question, it is difficult to render judgment on lender/VA forebearance efforts in the absence of large numbers of reports from our claims representatives in the field.

After having said that, it should be noted that even if lender and VA efforts have been heroic, they may have and may yet fail to prevent the inevitability of foreclosure. This is because, as we pointed out in our statement, so many mortgages are of the adjustable rate variety. In that regard, as we have already shown the committee, the costs of monthly adjustable rate mortgage payments rise faster and more sharply than most veteran's incomes.

Question 4. In light of the serious financial difficulties that are experienced by veterans who face the possibility of foreclosure, do your organizations share my concern that many veterans would be harmed by loans received under the program proposed by S. 1922 rather than assisted?

Answer 4.

Before moving ahead to the final question, we wish to advise the committee of our intention to solicit reports from our Department Service Officers around the country on the nature and extent of their dealings with veterans facing foreclosure. When that information becomes available to us, we will further advise the committee of our findings.

In your final question, Mr. Chairman, you ask whether we share your concern that veterans may ultimately be harmed more than helped if they received assistance under the program of foreclosure relief proposed in S. 1922. Because we share your concern, our formal statement at the hearing suggested that foreclosure relief legislation should be amended extending the repayment period for veterans assisted. If the repayment period were significantly extended, the added financial burden on those assisted would be reduced, a greater percentage of those assisted could be expected to repay the VA and a greater number of needy veterans would be eligible.

RESPONSE OF THE VETERANS OF FOREIGN WARS OF THE UNITED STATES TO WRITTEN QUESTIONS SUBMITTED BY HON. ALAN K. SIMPSON, CHAIRMAN OF THE SENATE COMMITTEE ON VETERANS' AFFAIRS

Question 1. What do your organizations believe would be the effect on veterans ability to purchase homes with VA guarantees if the VA interest rate was freed?

Answer 1. We believe veterans, particularly first time buyers, would find it more difficult to purchase a home through VA guarantees should the VA interest rate be freed. Although lenders would probably have more capital available for lending, we believe the veteran would find it harder to qualify for a certain mortgage payment because of higher income requirements.

Question 2. In light of the serious financial difficulties that are experienced by veterans who face the possibility of foreclosure, do your organizations share my concern that many veterans would be harmed by loans received under the program proposed by S. 1922 rather than assisted?

Answer 2. As stated in our prepared testimony, while in support of such a program, we believe the VA must exercise extreme caution in offering this type of assistance. This certainly cannot be a liberal program but tightly controlled so as to not lead a veteran into deeper debt with no possibility of repayment.

Question 3. In your experience in assisting veterans who have faced the possibility of foreclosure, how would you rate the efforts of lenders and the VA in forebearing and working with veterans to prevent foreclosure?

Answer 3. Overall, the coordinated efforts of lenders and the VA to keep veterans in their homes when faced with the possibility of foreclosure is good. However, there will always be isolated cases where improvement is needed in communication. Fortunately, we do find these cases rare.

Question 4. Do you believe that evidence exists or have you received a significant number of communications from your members that would indicate that the VA loan guaranty maximums of $27,500 on homes and $20,000 on manufactured homes are too low and that a significant number of veterans are currently unable to find willing lenders as a result?

Answer 4. We have not received any significant complaints from our members indicating the VA loan guaranty maximums are too low or that veterans are currently unable to find willing lenders because of the present limits. However, we do recognize that certain areas of the country command exceptionally high real estate values and, because of this, support an increase in the current levels.

RESPONSE OF THE DISABLED AMERICAN VETERANS TO WRITTEN QUESTIONS SUBMITTED BY HON. ALAN K. SIMPSON, CHAIRMAN OF THE SENATE COMMITTEE ON VETERANS' AFFAIRS

Question 1. Do you believe that evidence exists or have you received a significant number of communications from your members that would indicate that the VA loan guaranty maximums of $27,500 on homes and $20,000 on manufactured homes are too low and that a significant number of veterans are currently unable to find willing lenders as a result?

Answer 1. I cannot state that this office has received significant numbers of communications from DAV National Service Officers which indicate that veterans are unable to obtain home loan financing under the present VA guaranteed maximums. However, as pointed out in our Congressional testimony, the cost of housing purchase and construction have increased since these maximums were last adjusted to the extent that the VA's guarantee for conventional housing has fallen far below the 60% ratio. Failure on the part of the Congress to increase the guaranteed amounts could pave the way for such an adverse affect.

Question 2. What do your organizations believe would be the effect on veterans ability to purchase homes with VA guarantees if the VA rate was freed?

Answer 2. If the VA's interest rate was freed--allowed to approximate prevailing rates--then obviously the VA program would be competitive and attractive to private lending institutions, insuring their participation. On the other hand, one can argue that a VA interest rate one or two percentage points below market level but combined with the guarantee itself is still attractive to lending institutions. Lacking definitive information that freeing of the VA interest rate would prove to be beneficial to veterans--and we see no such indication at this time--we cannot advocate such an action.

Question 3. In your experience in assisting veterans who have faced the possibility of foreclosure, how would you rate the efforts of lenders and the VA in forebearing and working with veterans to prevent foreclosure?

Answer 3. We would rate the forbearance efforts of the VA as very good and quite compassionate and rate private lending institutions as somewhat less than that.

Question 4. In light of the serious financial difficulties that are experienced by veterans who face the possibility of foreclosure, do your organizations share my concern that many veterans would be harmed by loans received under the program proposed by S. 1922 rather than assisted?

Answer 4. Due to the selected nature of the proposed assistance and the latitude given to the VA Administrator in providing such assistance in only those cases where it is perceived that foreclosure can be avoided and that the veteran's ability to resume mortgage payments can be restored, we believe S. 1922 does not pose this problem (though the Committee might wish to consider authorizing a repayment period longer than the four year time frame now proposed by S. 1922).

RESPONSE OF THE VIETNAM VETERANS OF AMERICA, INCORPORATED TO WRITTEN QUESTIONS SUBMITTED BY HON. ALAN K. SIMPSON, CHAIRMAN OF THE SENATE COMMITTEE ON VETERANS' AFFAIRS

Question 1. Do you believe that evidence exists or have you received a significant number of communications from your members that would indicate that the VA loan guaranty maximums of $27,500 on homes and $20,000 on manufactured homes are too low and that a significant number of veterans are currently unable to find willing lenders as a result?

Answer 1. Vietnam Veterans of America believes, based on comments from our members, that the VA Loan Guaranty maximum on homes is in fact too low, and that significant numbers of veterans are currently unable to find willing lenders as a result. This is particularly true in rural and "red-lined" areas, and in high priced real estate markets, like New York and California.

VVA recommends that the guarantee provisions be revised to read "up to 75% of the median loan". (The average no-down-payment loan is currently $57,299; 75% of the current median would be $42,975.) VVA believes that the guarantee should be raised at least to this level, if it is to have the desired impact of encouraging more lenders to participate in the program.

Question 2. In your experience in assisting veterans who have faced the possibility of foreclosure, how would you rate the efforts of lenders and the VA in forebearing and working with veterans to prevent foreclosure?

Answer 2. It has been the experience of Vietnam Veterans of America that "Section F" of the VA Lenders Handbook, dealing with forebearance, is widely ignored by the lenders and by the Veterans' Administration. In plain words, little or no substantive effort is generally made by the VA or the lending institution "to extend all reasonable forebearance in the event a borrower becomes unable to meet the terms of a loan"; nor does the VA or the holder exercise "broad discretion in extending or recasting the terms of repayment in order to cure a default or to avoid imminent default."

VVA believes that the spirit and letter of "Section F" should be promulgated in regulations, by means of the public rule making process. Further, VVA believes that it is imperative that the Veterans' Administration organize a special section or unit within the Loan Guaranty Division of every Department of Veterans' Benefits at the VA Regional Office level, to work as a facilitator between the veteran and the lending institution, to reach solutions which meet everyone's legitimate interests. To be effective the VA needs to stress to the veteran and the lending institution the existence of, and reason for the formal forebearance mechanism, outlining verbally and in writing how to structure legitimate (albeit perhaps non-traditional) alternatives to foreclosure and eviction.

In short, VA has far to go toward meeting its responsibilities in regard to forebearance.

Question 3. What do your organizations believe would be the effect on veterans ability to purchase homes with VA guarantees if the VA interest rate was freed?

Answer 3. Vietnam Veterans of America does NOT believe that the VA interest rate should be "freed". If this were to happen, the low and moderate income veterans who are seeking to purchase their first home would be priced out of the market. The intent of the program was to assist those veterans who would be "frozen out" if this action were to be taken. Although a few more lenders might be induced to participate in the program, veterans of average income would be effectively excluded from the program.

Question 4. In light of the serious financial difficulties that are experienced by veterans who face the possibility of foreclosure, do your organizations share my concern that many veterans would be harmed by loans received under the program proposed by S. 1922 rather than assisted?

Answer 4. Loans made under S. 1922 could conceivably help some veterans, but VVA believes that a more appropriate remedy would be a program modeled on the "Homeowners Emergency Assistance Program" signed into law by the Governor of Pennsylvania on February 24, 1984. This program provides for a loan in an amount sufficient to bring the loan current, and additional assistance available for a period of up to 36 months. If this were coupled with "Section F" of the VA Lenders Handbook being enacted into regulation, and a true "forebearance" on the part of VVA and the lender, and loans being "recasted" where appropriate, so that the veteran and his or her family is able to meet loan payments on time and maintain their home, then such a program would be both helpful and workable.

VVA further believes that "recasting" of the loan to terms that are more manageable should be automatic where VA benefits and/or social security benefits that are a significant portion of household income have been reduced.

In summary, loans made under S. 1922 could conceivably help some vets out, if those loans were made in conjunction with other efforts to find the veteran employment. VVA suggests that the VA move to meet their responsibilities for employment counseling under Title 38 by adopting a policy to provide maximum employment assistance to veterans, particularly assistance under the Emergency Veterans' Job Training Act.

RESPONSE OF THE NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA TO WRITTEN QUESTIONS SUBMITTED BY HON. ALAN K. SIMPSON, CHAIRMAN OF THE SENATE COMMITTEE ON VETERANS' AFFAIRS

Question 1. DO YOU BELIEVE THAT EVIDENCE EXISTS OR HAVE YOU RECEIVED A SIGNIFICANT NUMBER OF COMMUNICATIONS FROM YOUR MEMBERS THAT WOULD INDICATE THAT THE VA LOAN GUARANTY MAXIMUMS OF $27,500 ON HOMES AND $20,000 ON MANUFACTURED HOMES ARE TOO LOW AND THAT A SIGNIFICANT NUMBER OF VETERANS ARE CURRENTLY UNABLE TO FIND WILLING LENDERS AS A RESULT?

Answer 1. The loan guarantee maximums are sufficient, under most circumstances to assure lender participation in the loan guaranty program. However, the limits do adversely affect veterans in markets where housing costs are unusually high such as Washington, Los Angeles, Philadelphia, etc. Frequently, young veterans with incomes sufficient to make high monthly payments are denied the home they need or desire because--while their income is high--they do not have sufficient cash down payments to qualify for higher priced homes. As a result, a veteran who has an immediate or anticipated need for a large home may have to buy an intermediate home. NCOA believes an increase in the loan guaranty maximum is necessary to preserve the value and intent of the program to veterans.

Question 2. WHAT DO YOUR ORGANIZATIONS BELIEVE WOULD BE THE EFFECT ON VETERANS ABILITY TO PURCHASE HOMES WITH VA GUARANTEES IF THE VA INTEREST RATE WAS FREED?

Answer 2. Since the FHA interest rate was freed last year, the VA rate has become the standard by which all other rates are measured. In the Association's opinion, freeing the VA rate will remove the last competitive standard exclusive to the lending industry thereby allowing interest rates to climb beyond the average veteran's ability to pay. Hypothetically, mortgage lenders could freely adjust interest rates to accommodate "free market" trends. However, we believe removal of the base will allow lenders to raise interest rates to artificially high levels.

Question 3. IN LIGHT OF THE SERIOUS FINANCIAL DIFFICULTIES THAT ARE EXPERIENCED BY VETERANS WHO FACE THE POSSIBILITY OF FORECLOSURE, DO YOUR ORGANIZATIONS SHARE MY CONCERN THAT MANY VETERANS WOULD BE HARMED BY LOANS RECEIVED UNDER THE PROGRAM PROPOSED BY S. 1922 RATHER THAN ASSISTED?

Answer 3. The passage of the "Veterans Housing Foreclosure Assistance Act of 1983", S. 1922, does carry with it some associated risk to some veterans who participate in the program. For others it will provide financial salvation. As the measure is written, the Administrator of Veterans Affairs is given great latitude in determining which veterans will be able to accept the additional obligation with a reasonable expectation of repayment. We must therefore rely on the good judgement of experienced VA personnel to determine who will be helped and deny participation to those likely to be harmed. S. 1922 is not a panacea for veterans in financial trouble, but if used properly, a significant number of veterans can be helped. Both the VA and CBO have testified the program may also produce small amounts of revenue for the revolving fund. NCOA believes the potential good the program may do make it worth testing for the two years allowed in the legislation.

Question 4. IN YOUR EXPERIENCE IN ASSISTING VETERANS WHO HAVE FACED THE POSSIBILITY OF FORECLOSURE, HOW WOULD YOU RATE THE EFFORTS OF LENDERS AND THE VA IN FOREBEARING AND WORKING WITH VETERANS TO PREVENT FORECLOSURE?

Answer 4. Since such a significant portion of NCCA's regular membership is on active duty (86%) we do not have much experience with loan foreclosure. Most of our loan guaranty cases involve assistance in securing the guaranty for purchase and defining the benefit for a veteran. In view of the Association's limited experience, we must reserve comment on VA and lender efforts to work with the veteran to avoid foreclosure.

Chairman SIMPSON. I want to thank Joe Buzhardt, who completes his work with the committee and goes on to a new assignment; and to Tony Principi, the majority counsel, chief counsel, staff director; and to Jon Steinberg, the minority counsel for their good efforts.

I would very much appreciate it, and I say this for the record, that there were five witnesses or groups today that did not furnish their testimony within the 48-hour period requested. And I'm going to insist upon that. If it does not come to the committee you will not be testifying, because that is the only way to properly function fairly to myself and to the veteran, who we all pledge and profess to serve.

So without naming names, there were five, and they will be submitted in secret somewhere. But I don't want it to happen again. It's not helpful to me at all.

And I thank you. I thank you for again testifying. And I know you have to do that a great many times, a great many committees and subcommittees. And it's always helpful and I appreciate it very much.

I believe that concludes the hearing. Thank you.

[Whereupon, at 12:17 p.m., the hearing was concluded.]

[The committee received the following statement and letter for the hearing record:]

PREPARED
STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS (NAHB)
before the
COMMITTEE ON VETERANS AFFAIRS
UNITED STATES SENATE
on
THE VA HOME LOAN GUARANTY PROGRAM

APRIL 13, 1984

Mr. Chairman and Members of the Committee:

My name is Pete Herder and I am a home builder and developer from Tucson, Arizona. I am submitting this statement on behalf of the more than 118,000 members of the National Association of Home Builders (NAHB), who employ over 3 million workers. NAHB is a trade association of the nation's homebuilding industry, of which I am President. Approximately 30% of our builder members are involved in building VA housing. I am pleased to present our views on the VA Home Loan Guaranty Program, the increase of the VA loan guaranty maximum and the VA home loan fee.

VA HOME LOAN GUARANTY PROGRAM

First, I would like to take this opportunity to comment on the Veterans Administration Home Loan Guaranty Program in general. VA housing programs have given four generations of veterans and their families the opportunity not only to obtain property and homeownership but to put down roots and establish community ties.

Participation in VA housing programs has been substantial with loans guaranteed by the VA in the 1970's increasing markedly over that of the decade of the 1960's. The number of loans guaranteed per year in the 1960's averaged about 120,000 while during the 1970's the number rose to about 320,000 per year. Since the inception of the program, the VA has guaranteed over 11 million loans with a value of over $200 billion.

The VA has done an excellent job in carrying out the housing entitlement programs afforded veterans. NAHB supports the VA Home Loan Guaranty Program and believes the VA to be one of the best federal agencies in terms of service to the consumer and to the home builder.

LOAN GUARANTY REVOLVING FUND

Mr. Chairman, due to the economic recession, the VA for the first time may have to ask Congress for an appropriation to replenish the Loan Guaranty Revolving Fund. This fund has serviced the veteran well in providing the necessary monies to keep the home loan program solvent.

It has been a self-sustaining fund which in conjunction with the home loan program serviced the veteran without additional appropriations all these years. But due to the length of the economic downturn, high interest rates, high deficits and the low turnover of homes acquired by the VA through foreclosure in the northeast and other areas around the country, the fund will soon be depleted.

The VA Home Loan Guaranty Program is an entitlement enacted by Congress in 1944 to enable veterans to purchase a home. Many of these veterans would not have been able to purchase a home without the no downpayment feature of this program. It is of particular importance to first-time homebuyers that this program be continued. They do not have the necessary capital to initially enter the homebuying market.

HOME LOAN FEE

Because of the problem in the revolving fund, it is of major concern to us that the one-half percent fee initiated by Congress in the Omnibus Reconciliation Act of 1982 is going into Treasury coffers rather than into the VA Loan Guaranty Revolving Fund. The fee is drawing approximately $80 million a year and would certainly help in defraying the deficits in the revolving fund that the VA is anticipating. We support Senate action to put the monies collected from this fee into the Loan Guaranty Revolving Fund to assist in maintaining the solvency of the program and to offset losses as originally recommended by the VA. We oppose Senate and House action, however, which increases the fee to one percent and oppose extending it for two years. The fee on the average VA loan will now be about $650 which could price first-time homebuying veterans, in particular, out of the market.

The NAHB is opposed to any fee increases or extension of the expiration date of the fee on VA home loans due to the entitlement nature of the program, its no downpayment feature and the increased affordability needed to buy a home.

LOAN GUARANTY MAXIMUM

We support the raising of the VA Home Loan Guaranty Maximum from $27,500 to $35,000 as recommended in S.2265.

In addition to the cyclical fluctuations of the housing industry, we also face a housing cost spiral as a result of increases in land costs, material costs and interest rates. For example, lumber and drywall prices increased dramatically as the homebuilding industry regained momentum coming out of the recession.

Attachments A and B to my testimony, show the need to increase the loan guaranty maximum to $35,000. Since 1974, the price of housing has increased at a greater rate than the amount of increases in the loan guaranty amount. The median sales price of a home went from $35,900 in 1974 to $75,100 in 1983, a 109% increase. The loan guaranty maximum only increased 57% in the same amount of time from $17,500 to $27,500. Comparing the 1984 new home sales estimate to 1980, the last time the loan guaranty was raised, new home prices will have increased over 24%.

Using the 1984 estimated cost of housing of $80,300, home prices will have increased 123.7 percent since 1974. The loan guaranty maximum even with the proposed increase to $35,000 will have increased only 100% in the same time span. One could logically argue to increase the loan guaranty even higher (see Attachment A). By raising the loan guaranty to at least $35,000, the goal of assuring that the maximum allowed by the law keeps pace with the rising cost of housing will be more easily achieved.

The VA Loan Guaranty program itself is not isolated from cost increases. The average sales price for new homes built with a VA loan guaranty increased from $31,968 in December 1974 to $77,298 in December, 1983 an increase of almost 142%. This is greater than the percent increase for new home sales in general. The average loan amount for the VA loan program has increased from $27,566 to $64,842 in December 1983. For the same period the average loan for new homes increased from $30,759 to $72,317 (see Attachment B).

Given the dramatic increases in the cost of housing, we believe that an increase in the loan guaranty amount to $35,000 is well justified.

Supporting an increase in the loan guaranty program will also be of assistance in the secondary market. Lenders can generally provide veterans lower financing charges if the mortgages are sold to the Government National Mortgage Association (GNMA), and the Federal National Mortgage Association (FNMA).

REGULATORY AND PROCESSING CHANGES

We also appreciate the recent decisions made by the VA to alleviate some of the regulatory requirements under the home loan program. It was announced at our Fall Board of Directors meeting in September that an A-95 review would no longer be required at the national level. The notice implementing subdivision reciprocity among all federal agencies will also be beneficial in streamlining and eliminating unnecessary overlap of government regulations.

NAHB has long been in the forefront of recommending a reduction of burdensome federal regulatory requirements and is pleased with the recent changes being made in the VA Home Loan Guaranty Program.

CONCLUSION

In closing, I would like to emphasize that it is essential that the VA remain true to its basic responsibility of providing credit assistance to veterans for the purchase of housing and to make maximum use of the loan guaranty program. The loan guaranty entitlement should not be denied our veterans and service personnel who have so ably served our country.

Attachment A

MEDIAN SALES PRICE OF NEW HOMES SOLD/LOAN GUARANTY MAXIMUM COMPARED TO 1974

	MEDIAN SALES PRICE	% INCREASE OVER 1974	LOAN GUARANTY MAXIMUM	% INCREASE OVER 1974
1974	$35,900	NA	$17,500	NA
1975	$39,300	9.5	$17,500	0
1976	$44,200	23.1	$17,500	0
1977	$48,800	35.9	$17,500	0
1978	$55,700	55.2	$25,000	42.9
1979	$62,900	75.2	$25,000	42.9
1980	$64,600	79.9	$27,500	57.1
1981	$68,900	91.9	$27,500	57.1
1982	$69,300	93.0	$27,500	57.1
1983	$75,100	109.2	$27,500	57.1
Est. 1984	$80,300	123.7	$35,000	100.0

Source: U.S. Department of Commerce, Bureau of the Census, Series C-25; Compiled by NAHB Economics Division; Mortgage Bankers Association

ATTACHMENT B

SALES PRICES AND LOAN AMOUNTS
VA PROGRAMS
DECEMBER 1974 - DECEMBER 1983

	December 1974	December 1983	% INCREASE
VA PROGRAMS			
Average Sales Price (new housing)	$31,968	$77,298	141.8
Average Loan Amount (all housing)	$27,566	$64,842	135.2
Average Loan Amount (new housing)	$30,759	$72,317	135.1
Average Loan Amount (existing housing)	$26,261	$61,249	133.2

Source: Veterans Administration; Compiled by NAHB Economics Division

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February 29, 1984

The Honorable Alan K. Simpson
Chairman
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20515

Dear Mr. Chairman:

The American Bankers Association(ABA) is pleased to submit the following statement to your Committee and respectively requests that it be made a part of the official record of the hearing to be held on February 29, 1984. Our Association urges your Committee to reaffirm the authority of the Veterans Administration to continue to have the option to either acquire title to foreclosed properties or to pay the guaranty portion of the foreclosed loan. The ABA represents approximately 90% of the Nation's 14,700 banks, many of whom participate in VA's loan guaranty program either directly or through wholly or partially owned mortgage banking subsidiaries.

The VA loan guaranty program is a Congressionally mandated entitlement program which has successfully helped millions of America's veterans obtain decent, affordable housing. Presently, when a VA guaranteed loan goes into default and is foreclosed, VA has the option to either pay the guaranty portion to the holder of the loan(lesser of $27,500 or 60% of the outstanding amount) or acquire title to the property. Historically, VA has opted to acquire the property in the vast majority of cases, a practice which has prompted greater lender participation in the guaranty program.

Included in the Administration's budget, introduced on Wednesday, February 1, was a provision restricting the VA to paying the guaranty portion of mortgage loans made to veterans in the event of foreclosure. This provision in the President's budget came from a preliminary recommendation of the President's Private Sector Survey on Cost Control(PPSSCC)-Report on the Veterans Administration which suggested that VA pay the guaranty in lieu of acquiring title to foreclosed property(except for certain exceptions). Ironically, the final report of the PPSSCC(August 31, 1983) was amended to recommend that VA acquire title to foreclosed properties when it is in the best interest of the taxpayers to do so. In other words, VA should choose from the two options, to either pay the guaranty or acquire the property, depending on which option presents the greatest savings to the tax paying public.

The Honorable Alan K. Simpson
February 29, 1984
Page two

The ABA supports allowing VA to continue to have the option to choose the most cost effective method of disposing of foreclosed properties. Failure to permit VA the flexibility of the two options could result in unnecessary losses to the guaranty program and subsequently the tax paying public while at the same time having a detrimental impact on the guaranty program itself.

Restricting the VA to paying the guaranty portion on foreclosed properties will undoubtedly be perceived by lenders, servicers of loans, and investors in VA loans and the securities backed by VA loans as increasing their risk exposure to losses incurred in the disposition of such properties. This increased risk, when coupled with the additional real cost increases to be realized for loan servicing and property disposition, could result in lenders accessing higher fees and other charges for originating VA loans.

Our greatest concern, however, is with the veteran who wishes to obtain the financing for his home through the VA guaranty program. In addition to being the ultimate recipient of any increased costs for VA loans which could result from the Administration's budget proposal, the veteran could find these loans increasingly difficult to obtain. The veteran could find lenders imposing more stringent underwriting guidelines, than those established by VA, since the lender will be required to dispose of all VA foreclosed properties. Lenders will certainly be less inclined to entertain loan requests from veterans with less than full entitlement. Lenders may also refuse to accept applications from veterans for no-money-down VA loans, opting to demand some equity in investment from the veteran.

If VA pays the guaranty amount on all loans, thus requiring the lender to dispose of foreclosed properties, we fear that some lenders will have a tendency to avoid making loans in marginal areas, such as rural and some inter-city locations in some parts of the country. This could then create an unwarranted hardship on veterans in those areas.

The ABA in summary, Mr. Chairman, wishes to encourange your Committee to reaffirm the right of the Veterans Administration to have the option to either acquire title to foreclosed properties or to pay the guaranty portion. The final decision as to the option chosen should be based on an individual analysis by the VA of each loan foreclosure to determine the method which will provide the greatest savings to the taxpayer. We sincerely appreciate your consideration of our comments on this issue.

Sincerely,

Eugene L. Thomas

Eugene L. Thomas
Chairman
Executive Committee of Housing Real
  Estate and Finance Division
American Bankers Association

Executive Vice President
The Arizona Bank
Phoenix, Arizona

APPENDIX A

Calendar No. 721

98th Congress } SENATE { Report
2d Session } { 98-366

EMERGENCY PROTECTION OF SOLVENCY OF VA LOAN GUARANTY REVOLVING FUND

March 22 (legislative day, March 19), 1984.—Ordered to be printed

Mr. Simpson, from the Committee on Veterans' Affairs, submitted the following

REPORT

[To accompany S. 2391]

The Committee on Veterans' Affairs, to which was referred the bill (S. 2391) to amend title 38, United States Code, to revise the authority for the collection of a fee in connection with housing loans guaranteed, made, or insured by the Veterans' Administration, having considered the same, reports favorably thereon without amendment to the bill, but with an amendment to the title, and recommends that the bill, as amended, do pass.

Text of the Bill, S. 2391

The text of the bill as reported is as follows:

That section 1824(c) of title 38, United States Code, is amended—

(1) by inserting "(2) fees collected under section 1829 of this title," after "requirements of the Fund,"; and

(2) by redesignating clause (2) as clause (3).

Sec. 2. Section 1829 of title 38, United States Code, is amended—

(1) in subsection (a), by striking out "one-half of"; and

(2) in subsection (c), by striking out "Treasury of the United States as miscellaneous receipts" and inserting in lieu thereof "Veterans' Administration Loan Guaranty Revolving Fund".

Sec. 3. The amendments made by this Act shall take effect with respect to loans closed after March 31, 1984.

Amend the title so as to read:

A bill to amend title 38, United States Code, to provide emergency interim solvency for the Veterans' Administration's Loan Guaranty Revolving Fund by providing for the deposit of loan fees in the Fund and by increasing the fees.

INTRODUCTION

S. 2391 was introduced on March 6, 1984, by Senator Alan K. Simpson, Chairman of the Committee on Veterans' Affairs, for himself and Senator Alan Cranston, Ranking Minority Member of the Committee on Veterans' Affairs. It would amend the existing requirement for the collection of a loan origination fee in connection with housing loans guaranteed, made, or insured by the Veterans' Administration, by providing that receipts from the collection of the fee shall be deposited into the Loan Guaranty Revolving Fund rather than, as under current law, into the U.S. Treasury as miscellaneous VA receipts, and by raising the fee from the present one-half of 1 percent to 1 percent of the total loan amount.

On February 29, 1984, the Committee held a hearing on various aspects of the VA's loan guaranty operations. Testimony was received from Everett Alvarez, Jr., Deputy Administrator of the VA; Frank S. Sato, Inspector General of the VA; Kathleen W. Shepherd, Principal Analyst for the Congressional Budget Office; Robert Mahn, Senior Vice President of Mortgage Operations, Federal National Mortgage Associations; Robert Wertheim, Chairman of the Southwest Mortgage Company, on behalf of the Mortgage Bankers Association of America; Paul Egan, Deputy Director, National Legislative Commission of The American Legion; James McGill, Special Assistant to the Director of Legislative Services, Veterans of Foreign Wars of the United States; John F. Heilman, National Legislative Director of the Disabled American Veterans; Dennis Rhoades, Executive Director of the Vietnam Veterans of America; and Richard W. Johnson, Jr., Director of Legislative Affairs of the Non Commissioned Officers Association of the United States of America. From that hearing, a general consensus has emerged among the Administration, private mortgage industry representatives, the major veterans organizations, and the Members of the Committee that the Loan Guaranty Revolving Fund is facing imminent funding problems which, in the absence of prompt remedial action, will threaten the future solvency of the program.

On March 7, 1984, the Committee met in open session and voted unanimously to report S. 2391 favorably with a title amendment.

DISCUSSION

BASIC PURPOSE

The basic purpose of S. 2391 is to improve the financial health of the Loan Guaranty Revolving Fund in the near term. Since S. 2391 would leave intact the sunset provision of September 30, 1985, on the current law requirement to collect a one-half of 1 percent loan origination fee, it is the Committee's intention to consider other legislative changes in VA policy and practice regarding the home loan guaranty program, for the purpose of assuring the solvency of the Loan Guaranty Revolving Fund in the long term.

3

BACKGROUND

The VA Home Loan Guaranty Program was established approximately 40 years ago, in the Servicemen's Readjustment Act of 1944 (Public No. 346, 78th Congress). It was designed to help returning World War II veterans in their readjustment to civilian life, by providing to any such veteran with at least 90 days of active-duty service a VA guaranty of 50 percent of the principal of a mortgage, up to a guaranty ceiling of $2,000. The program was originally authorized for a period of 5 years, but has been made permanent and revised many times in the intervening years.

Until 1961, the program was funded through appropriations to the VA's readjustment benefits account. In 1962, the VA Loan Guaranty Revolving Fund (LGRF) was established, for the dual purposes of paying program costs and receiving program collections. In only 6 of the years since 1962 has the LGRF operated at a surplus. In 10 of the years since 1962, infusions of outside funds have become necessary, and this has been achieved through transfers from the unobligated balances of the Direct Loan Revolving Fund (DLRF). The total amount of such transfers has been $1.784 billion, which, when taken together with the cumulative $730 million appropriations total prior to 1962, yields a total operating cost over the life of the program in excess of $2.5 billion. During that period, the VA has guaranteed a total of 11.5 million loans with an aggregate face value of more than $200 billion.

The present structure of the loan guaranty program is as follows: The VA is authorized to guarantee residential mortgages for 60 percent of their principal value up to a maximum of $27,500. This guaranty, backed by the Federal Government, takes the place of the 20 to 25 percent downpayment customarily required in the market for conventional loans, and thus can be sufficient to support a principal loan amount of $110,000. The maximum term on VA guaranteed mortgages is 30 years, and maximum rates of interest, established by the Administrator, are adjusted periodically to meet the demands of the loan market. (Until the enactment last year of Public Law 98–181, maximum interest rates were adjusted in conjunction with those applicable to Federal Housing Administration (FHA) loans. Under title IV of that law, maximum rates of interest under the FHA program are no longer established by the Secretary of Housing and Urban Development; instead, interest rates are negotiated between the lender and the borrower based on prevailing market conditions.) The program is open to veterans meeting certain minimum service requirements and to surviving spouses. VA guarantees are also available on manufactured homes, for 50 percent of the principal loan amount up to a maximum of $20,000. For the vast majority of loans, the cost to the Government of providing the guaranty has been limited to the administrative expense of processing the initial approval. Only those loans terminated for default—less than 4 percent of the total—have resulted in a significant cost.

Within that 4 percent, the VA is generally faced with two options for addressing the default: Either pay off the guaranty (the average amount of which in fiscal year 1983 was approximately $19,000) or acquire and resell the property, while paying the lender for any loss it incurred. Currently, the VA chooses the latter course of action in approximately 95 percent of all default cases. CBO estimates that a continuation of this current policy will result in a deficit in the LGRF of at least $125 million in fiscal year 1984, and additional deficits totaling nearly $1 billion in fiscal years 1985–1989.

The source of the current solvency crisis facing the program is not simply the existence of deficits—for it is clearly in the nature of the program to operate at a deficit—but rather the drying up of the traditional source of funding these deficits. As noted above, the principal such funding source since 1962 has been transfers from the unobligated balances of the DLRF. In fiscal year 1983, $300 million was so transferred, and an additional $200 million is expected to be transferred in fiscal year 1984.

This source of funding, however, is now virtually exhausted. The DLRF was originally established in 1950 to provide direct VA loans to veterans living in remote, rural areas where commercial lending sources were not available. Because the direct loan program charges interest on its loans, in much the same fashion as a private mortgage lender, it eventually began to accumulate a net surplus. However, because private credit has become generally available in all areas of the country, the program was closed, effective in March of 1981, for all loans other than those made in connection with specially adapted housing grants to severely disabled veterans. This policy change has resulted in a severe decline in the number of new direct loans made by the VA from a high of nearly 28,000 in fiscal year 1960 to a projected total of 26 in the coming fiscal year. Concurrently with this elimination of new direct loans, the VA has been implementing in the last several years an Administration-wide policy of selling Federal assets, such as its VA direct loan portfolio, wherever feasible, to reduce the budget deficit. Nearly the entire direct loan portfolio has now been sold. Thus, no transfer to the LGRE from the unobligated balance of the DLRF may be expected in fiscal year 1985 or beyond.

The Administration's response to this situation was to propose, in its budget submission for fiscal year 1985, significant policy changes in the operation of the loan guaranty program effective March 1, 1984. The most significant change proposed would terminate the VA's current practice of acquiring the property involved following a foreclosure, and would require instead that the VA pay off its guaranty in all cases. It was also proposed to terminate the VA's policy of "refunding" loans in certain cases—that is, paying the lender the principal amount of a delinquent guaranteed loan, receiving an assignment of the loan, and working out a new payment schedule with the veteran. In addition, it was proposed to terminate the VA's practices, in connection with the resale of properties acquired following foreclosure, of providing purchasers (not necessarily veterans) with VA direct loans at reduced interest rates and of promising to repurchase such vendee mortgages in the event of default. The Administration projects that the effects of implementation of these changes on the LGRF would be to reduce fiscal year 1984 outlays by $148 million, from $261 million to

$113 million, to reduce outlays in fiscal year 1985 to a level of $29.6 million, and to obviate the need for any appropriations for the LGRF in both those fiscal years.

At the Committee's February 8, 1984, hearing on the budget for veterans' programs, the Administrator of Veterans' Affairs testified that the VA was working with other Federal agencies involved to develop a consistent policy with respect to foreclosure procedures. He stated that he did not think the status of the proposed new policy would be resolved until "late fall, at the earliest."

Subsequently, in a February 22 letter to the Chairman of the Committee, the Director of the Office of Management and Budget advised that the implementation date for whatever changes are made in loan guaranty program procedures will be October 1, 1984.

PROVISIONS OF S. 2391

Two changes would be made by S. 2391. Effective April 1, 1984, it would provide for receipts from the loan origination fees on all loans guaranteed, made, or insured by the VA to be deposited in the LGRF rather than in the Treasury of the United States as miscellaneous receipts, and it would increase the fee from one-half of 1 percent to 1 percent of the loan amount.

The current requirement for the collection of a loan origination fee, contained in section 1829 of title 38, was enacted in section 406 of the Omnibus Reconciliation Act of 1982, Public Law 97-253. It was derived from legislation proposed by the Administration and introduced by Senator Alan K. Simpson, Chairman of the Committee on Veterans' Affairs, as S. 2379, on April 15, 1982. This legislation was recommended by the Committee with amendments on July 20, 1982, to the Budget Committee, for inclusion as title VII of S. 2774 the Omnibus Reconciliation Act of 1982. A comparable provision was approved by the House in H.R. 6955.

In its report to accompany section 706 of S. 2774, the Committee stated:

> Loans guaranteed by the VA . . . offer several significant advantages not available through conventional mortgage transactions. The most important of these is the fact that the Government's guaranty obviates the need for substantial downpayments, by offering the lender comparable protection. In addition, VA guaranteed loans are available on relatively short terms, at interest rates generally below prevailing market rates, accompanied by other investment safeguards applicable to conventional mortgage transactions. At present, there is no fee charged in connection with these loans comparable to the fee—presently averaging between 3 and 4 percentage points on the total amount of the loan—charged in connection with conventional mortgages. . . .
>
> The Committee believes that the VA Loan Guaranty Program provides a unique and invaluable service to veterans for whom the downpayment demands associated with a conventional mortgage would prove too great an obstacle to home ownership. The Committee is of the view that the imposition of the user fee, with the option of financing, provided for in

> this section, represents a modest and not unreasonable burden to impose upon beneficiaries of these useful VA loan programs. (S. Rept. No. 97–504, at pp. 247–48.)

The Committee believes, in connection with the significant financing problems now facing the LGRF, that these views are equally persuasive in the context of the present legislation.

The provision in present section 1829(c) of title 38 mandating deposit of loan fees into the Treasury was regarded at the time that it was enacted in section 406 of Public Law 97–253 as the most appropriate means of satisfying the Committee's instruction from the Congress as part of the reconciliation process. The Committee is of the view that the intervening reality of significant unfunded deficits in the LGRF is of sufficient overriding importance to the continued economic viability of the loan guaranty program itself to warrant this change. The Committee believes that it is appropriate that fees generated by this vital program should, now that the program is experiencing compelling funding difficulties, be returned and made available to the program for the purpose of meeting the considerable costs of its operation.

The 1-percent fee which would be imposed by section 1829 of title 38, as amended by S. 2391, would, based on the current average loan principal of $60,000, result in an average fee of $600 in each individual case. The bill would preserve the current law exemptions for veterans entitled to receive service-connected disability compensation and for surviving spouses of veterans who died of service-connected disabilities. It would also leave intact the present provision affording eligible veterans the option of paying the fee in cash at the time of settlement or of financing it as a part of the initial principal amount of the loan. If the veteran opts for the latter course, the fee is payable in its entirety by the lender to the VA at the time of settlement, and the veteran incurs he obligation to repay the principal amount of such fee, together with interest, under the same terms and conditions governing the veteran's obligation to repay the principal amount of the loan itself. The bill would also retain the current sunset provision for section 1829, so that no fees would be collected for loans closed after the end of fiscal year 1985.

The Committee emphasizes that this legislation is designed as an interim measure only. The Committee recognizes the need for actions to address the long term solvency requirements of the LGRF, but notes that, in light of the complexity of the issues and of the fact that much information remains yet to be received and examined, it is not in a position to recommend specific long term measures at this time. Its goal in this legislation is to take swift action—the bill would take effect on April 1, 1984—to improve the financial health of the program for this fiscal year and the next one.

The VA testified at the February 29 hearing that it is participating in an interagency task force to develop "uniform Federal standards for determining when it would be in the best interests of the Government to acquire properties in Federal housing programs." The results of that task force's review are expected to have an impact on the nature and extent of additional actions that may be necessary.

It remains the Committee's intention to continue to review carefully the situation regarding the LGRF as the legislative, budget, and appropriations processes go forward this year, and, after taking into account the task force's proposed VA policy changes, to take such actions as are necessary and appropriate to assure the Fund's solvency.

COST ESTIMATE

In compliance with paragraph 11(a) of rule XXVI of the Standing Rules of the Senate, the Committee, based on information supplied by the Congressional Budget Office (CBO), estimates that the budgetary effects of the enactment of S. 2391 in the year of enactment and during the first 5 years following enactment would be a reduction in outlays of $44.8 million in fiscal year 1984, of $111.1 million in fiscal year 1985, and of $0 in fiscal years 1986 through 1989. In terms of budget authority, the effects would be increases of identical amounts in such fiscal years.

It is the Committee's understanding that the positive budget authority effect which appears in CBO's estimates for fiscal years 1984 and 1985 results from converting the loan origination fees from an offsetting receipt to an offsetting collection. As an offsetting receipt, the fees offset both budget authority and outlays by equal amounts. On the other hand, as an offsetting collection, the fees would offset the appropriation needs of the Loan Guaranty Revolving Fund. A reduction in Fund expenditures would result in an outlay reduction in the same amount as the expenditure reduction, no matter what level of outlays is initially estimated for the Fund. The Fund's budget authority, however, cannot fall below zero. (This is because budget authority, in this context, reflects the amount of appropriations or other income to the Fund needed to prevent any default by the Federal Government on its guaranties—this is, to prevent a deficit in the Fund—amounts which have been estimated by CBO at $126.8 million in fiscal year 1984, $108.6 million in fiscal year 1985, $8.6 million in fiscal year 1986, $179.8 million in fiscal year 1987, $300.6 million in fiscal year 1988, and $384.2 million in fiscal year 1989.) The reduction in budget authority, therefore, is limited to the amount of budget authority current estimated to be needed by the Fund. The effects of this can be seen in the table below, which shows the impact of S. 2391 on the Loan Guaranty Revolving Fund and the offsetting receipts account.

	1984		1985		1986	
	BA	O	BA	O	BA	O
Effects of S. 2391:						
Loan guaranty revolving fund	−89.6	−89.6	−108.6	−222.2	−8.6	0
Origination fees: Offsetting receipts	44.8	44.8	111.1	111.1	0	0
Net impact	−44.8	−44.8	2.5	−111.1	−8.6	0

	1987		1988		1989	
	BA	O	BA	O	BA	O
Effects of S. 2391:						
Loan guaranty revolving fund	−105	0	0	0	0	0
Origination fees: Offsetting receipts	0	0	0	0	0	0
Net impact	−105	0	0	0	0	0

As can be seen above, the elimination of the offsetting receipts in fiscal year 1985 increases total function 700 budget authority and outlays by $111.1 million. Depositing the fees into the Revolving Fund, however, reduces its budget authority by only the $108.6 million estimated fiscal year 1985 Fund deficit, thus resulting in a net increase of $2.5 million in fiscal year 1985 Function 700 budget authority. This increase in budget authority does not in any way imply an increase in Revolving Fund expenditures, because expenditures from the Fund are a function of loan defaults, not of budget authority.

CBO's formal estimates are as follows:

CONGRESSIONAL BUDGET OFFICE—COST ESTIMATE

1. Bill number: S. 2391.

2. Bill title: None.

3. Bill status: As ordered reported by the Senate Committee on Veterans' Affairs, March 7, 1984.

4. Bill purpose: This bill would increase the fee charged for home loans made or guaranteed by the Veterans Administration from one-half of one percent to one percent of the loan principal. Further, the bill would amend the current requirement that all such fees be deposited as miscellaneous receipts of the Treasury, stipulating instead that the fees be deposited in the Loan Guaranty Revolving Fund. The provisions of S. 2391 would be effective for loans closed after March 31, 1984, but the September 30, 1985, termination date for the imposition of such fees would be unchanged.

5. Estimated cost to the Federal Government:

	Millions
Budget authority:	
Fiscal year:	
1984	$44.8
1985	111.1
1986	0
1987	0
1988	0
1989	0
Outlays:	
Fiscal year:	
1984	−44.8
1985	−111.1
1986	0
1987	0
1988	0
1989	0

The effects of this bill would fall in budget function 700.

Basis for estimate: It is estimated that $90 million in loan origination fees will be collected in fiscal year 1984 at the current rate of one-half of one percent. If the rate of the fee were doubled on April 1, an additional $45 million would be expected to be collected during the fiscal year. In 1985 the collection of fees should be doubled by this measure, since the increased fee is not expected to significantly affect loan volume.

Deposited into the revolving fund, these fees would directly offset fund outlays. Since the revolving fund has no budget authority under current law, the only budget authority effect would result from the elimination of the offsetting receipt.

Against the Congressional Budget Office baseline, however, the budget authority impact of S. 2391 would be different, because the baseline assumes that appropriations will be enacted to finance the deficits anticipated for the fund in 1984–1989. These appropriations, shown as budget authority of the fund, would be reduced by the amount of the fees collected. The net budgetary impact of S. 2391 against the CBO baseline would be as follows:

	Millions
Budget authority:	
Fiscal year:	
1984	—$44.8
1985	2.5
1986	—8.6
1987	—104.8
1988	0
1989	0
Outlays:	
Fiscal year:	
1984	—44.8
1985	—111.1
1986	0
1987	0
1988	0
1989	0

6. Estimated cost to State and local governments: The Congressional Budget Office has determined that the budgets of state and local governments would not be affected directly by the enactment of this bill.

7. Estimate comparison: None.

8. Previous CBO estimate: None.

9. Estimate prepared by: K. W. Shepherd.

10. Estimate approved by:

JAMES L. BLUM,
Assistant Director for Budget Analysis.

REGULATORY IMPACT STATEMENT

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee on Veterans' Affairs has made an evaluation of the regulatory impact which would be incurred in carrying out S. 2391. The results of that revaluation are described below.

A. Estimate of the numbers of individuals and businesses who would be regulated and a determination of the groups and classes of such individuals and businesses: The bill would result in no additional regulation of individuals and businesses.

B. Determination of the economic impact of such regulation on the individuals, consumers, and businesses effected: Since no individuals would be regulated by S. 2391, there would be no such economic impact.

C. Determination of the impact on the personal privacy of the individuals affected: Enactment of S. 2391 would have no impact on the personal privacy of participating individuals.

D. Determination of the amount of additional paperwork that will result from the regulations to be promulgated pursuant to the bill: Enactment of S. 2391 would result in no additional paperwork.

SECTION-BY-SECTION ANALYSIS OF S. 2391

SECTION 1

Would amend section 1824(c) of title 38, United States Code, relating to and identifying the funding sources available to the Loan Guaranty Revolving Fund (LGRF), to provide that an additional source of funding for the LGRF shall be loan origination fees collected under section 1829. This would be in addition to the two other sources identified under current law: First, transfers from the readjustment benefits account, and second, all amounts received by the VA in connection with its loan guaranty and insurance operations, including all collections of principal and interest and the proceeds from the use of property held or the sale of property disposed of.

SECTION 2

Clause (1) of section 2 would amend subsection (a) of section 1829 of title 38, relating to the establishment and collection of a loan fee in connection with all housing loans guaranteed, made, or insured by the VA, to increase the amount of such fee from one half of one percent to one percent of the loan amount.

Clause (2) of section 2 would amend subsection (c) of such section 1829 to provide that receipts from the loan fee collected under the authority of section 1829 shall be deposited directly into the LGRF rather than, as is provided under current law, into the Treasury of the United States as miscellaneous receipts. (Under section 1824(a), the LGRF itself is established as a discrete account within the Treasury.)

SECTION 3

Would provide that the amendments made by S. 2391 would take effect with respect to loans closed after March 31, 1984. Under existing law, the origination fee will not be collected with respect to loans closed after September 30, 1985. S. 2391 would make no change in this sunset provision.

TABULATION OF VOTES CAST IN COMMITTEE

In compliance with the requirements of paragraph 7(a)(3) of rule XXVI Standing Rules of the Senate, the following is a tabulation of votes cast in person or proxy by Members of the Committee on Veterans' Affairs at a March 7, 1984, meeting to consider S. 2391.

The Committee agreed to report S. 2391 favorably to the Senate, with a title amendment, by a 12-0 vote, as follows:

YEAS 12	NAYS 0
Alan Simpson	
Strom Thurmond	
Robert Stafford	
Frank Murkowski	
Arlen Specter	
Jeremiah Denton	
Rudy Boschwitz	
Alan Cranston	
Jennings Randolph	
Spark Matsunaga	
Dennis DeConcini	
George Mitchell	

Changes in Existing Law Made by S. 2391 as Reported

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 38—UNITED STATES CODE

* * * * * * *

PART III—READJUSTMENT AND RELATED BENEFITS

* * * * * * *

CHAPTER 37—HOUSING AND SMALL BUSINESS LOANS

* * * * * * *

Subchapter III—Administrative Provisions

* * * * * * *

§ 1824. Loan guaranty revolving fund

(a) * * *

* * * * * * *

(c) There shall be deposited in the Fund (1) by transfer from current and future appropriations for readjustment benefits such amounts as may be necessary to supplement the Fund in order to meet the requirements of the Fund, *(2) fees collected under section 1829 of this title*, and [(2)] *(3)* all amounts now held or hereafter received by the Administrator incident to housing loan guaranty and insurance operations under this chapter, including but not limited to all collections of principal and interest and the proceeds from the use of property held or the sale of property disposed of.

* * * * * * *

§ 1829. Loan fee

(a) Except as provided in subsection (b) of this section, a fee shall be collected from each veteran obtaining a housing loan guaranteed, made, or insured under this chapter, and no such loan may be guaranteed, made, or insured under this chapter until the fee payable with respect to such loan has been remitted to the Administrator. The amount of the fee shall be [one-half of] one percent of the total loan amount. The amount of the fee may be included in the loan to the veteran and paid from the proceeds thereof.

(b) A fee may not be collected under this section from a veteran who is receiving compensation (or who but for the receipt of retirement pay would be entitled to receive compensation) or from a surviving spouse described in section 1801(b)(2) of this title.

(c) Fees collected under this section shall be deposited into the [Treasury of the United States as miscellaneous receipts] *Veterans' Administration Loan Guaranty Revolving Fund.*

(d) A fee may not be collected under this section with respect to any loan closed after September 30, 1985.

* * * * * * *

APPENDIX B

98TH CONGRESS
2d Session

HOUSE OF REPRESENTATIVES

REPORT
98-861

DEFICIT REDUCTION ACT OF 1984

THE COMMITTEE OF CONFERENCE

SUBMITTED THE FOLLOWING

CONFERENCE REPORT

[To accompany H.R. 4170]

JUNE 23, 1984.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1984

* * * * * * *

TITLE V—VETERANS' PROGRAMS

PART A—COST SAVINGS UNDER THE VETERANS' ADMINISTRATION PENSION PROGRAM

EFFECTIVE DATE FOR AWARD OF PENSION FOR NON-SERVICE-CONNECTED DISABILITY OR DEATH

SEC. 2501. (a)(1) Subsection (b)(3) of section 3010 of title 38, United States Code, is amended—

(A) by inserting "(A)" after "(3)";

(B) by inserting "described in subparagraph (B) of this paragraph" after "to a veteran";

(C) by striking out "an application therefor is received" and inserting in lieu thereof "the veteran applies for a retroactive award"; and

(D) by adding at the end the following new subparagraph:

"(B) A veteran referred to in subparagraph (A) of this paragraph is a veteran who is permanently and totally disabled and who is prevented by a disability from applying for disability pension for a period of at least 30 days beginning on the date on which the veteran became permanently and totally disabled.".

(2) Subsection (d) of such section is amended to read as follows:

"(d)(1) The effective date of an award of death compensation or dependency and indemnity compensation for which application is received within one year from the date of death shall be the first day of the month in which the death occurred.

"(2) The effective date of an award of death pension for which application is received within 45 days from the date of death shall be the first day of the month in which the death occurred.".

(b) The amendments made by subsection (a)(1) and the provisions of paragraph (2) of section 3010(d) of title 38, United States Code, as added by subsection (a)(2), shall take effect with respect to applications that are first received after September 30, 1984, for benefits under chapter 15 of title 38, United States Code.

PART B—ACTIONS TO INCREASE RECEIPTS AND REDUCE COSTS UNDER THE VETERANS' ADMINISTRATION HOME-LOAN GUARANTY PROGRAM

INCREASE IN FEE FOR HOME LOANS GUARANTEED BY THE VETERANS' ADMINISTRATION AND EXTENSION OF FEE TO VENDEE LOANS

SEC. 2511. (a) Section 1829 of title 38, United States Code, is amended—

(1) in subsection (a)—

(A) by inserting "and from each person obtaining a loan from the Administrator to finance the purchase of real property from the Administrator," after "under this chapter,";

(B) by striking out "one-half of"; and

(C) by striking out "to the veteran" after "in the loan";

(2) by striking out subsection (c); and

(3) by redesignating subsection (d) as subsection (c) and striking out "September 30, 1985" in such subsection and inserting in lieu thereof "September 30, 1987".

(b) Section 1824(c) of such title is amended by striking out "and (2)" and inserting in lieu thereof "(2) amounts received by the Administrator as fees collected under section 1829 of this title, and (3)".

(c)(1) The amendments made by subsection (a)(1) shall apply with respect to loans closed after the end of the 30-day period beginning on the date of the enactment of this Act.

(2) The amendments made by subsections (a)(2) and (b) shall apply with respect to loans closed on or after the date of the enactment of this Act.

(3) The amendment made by subsection (a)(3) shall take effect on the date of the enactment of this Act.

ACTIONS TO REDUCE COSTS UNDER HOME-LOAN PROGRAM

SEC. 2512. (a) Section 1816 of title 38, United States Code, is amended—

(1) in subsection (a)—

(A) by designating the first sentence as paragraph (1), the second and third sentences as paragraph (2), and the fourth sentence as paragraph (3);

(B) by striking out "Administrator who shall thereupon" in paragraph (1) (as so designated) and inserting in lieu thereof "Administrator of such default. Upon receipt of such notice, the Administrator may, subject to subsection (c) of this section,"; and

(C) by striking out "guaranteed, and shall" in paragraph (1) (as so designated) and inserting in lieu thereof "guaranteed. If the Administrator makes such a payment, the Administrator shall"; and

(2) by adding at the end the following new subsections:

"(c)(1) For purposes of this subsection—

"(A) The term 'defaulted loan' means a loan that is guaranteed under this chapter, that was made for a purpose described in section 1810(a) of this title, and that is in default.

"(B) The term 'liquidation sale' means a judicial sale or other disposition of real property to liquidate a defaulted loan that is secured by such property.

"(C) The term 'net value', with respect to real property, means the amount equal to (i) the fair market value of the property, minus (ii) the total of the amounts which the Administrator estimates the Administrator would incur (if the Administrator were to acquire and dispose of the property) for property taxes, assessments, liens, property maintenance, property improvement, administration, resale, and other costs resulting from the acquisition and disposition of the property.

"(D) The term 'total indebtedness', with respect to a defaulted loan, means the amount equal to the total of (i) the unpaid principal of the loan, (ii) the interest on the loan as of the date of the liquidation sale of the property securing the loan (or such earlier date following the expiration of a reasonable period of

time for such sale to occur as the Administrator may specify pursuant to regulations prescribed by the Administrator to implement this subsection), and (iii) such reasonably necessary and proper charges (as specified in the loan instrument and permitted by such regulations) associated with liquidation of the loan, including advances for taxes, insurance, and maintenance or repair of the real property securing the loan.

"(2)(A) Except as provided in subparagraph (B) of this paragraph, this subsection applies to any case in which the holder of a defaulted loan undertakes to liquidate the loan by means of a liquidation sale.

"(B) This subsection does not apply to a case in which the Administrator proceeds under subsection (a)(2) of this section.

"(3)(A) Before carrying out a liquidation sale of real property securing a defaulted loan, the holder of the loan shall notify the Administrator of the proposed sale. Such notice shall be provided in accordance with regulations prescribed by the Administrator to implement this subsection.

"(B) After receiving a notice described in subparagraph (A) of this paragraph, the Administrator shall determine the net value of the property securing the loan and the amount of the total indebtedness under the loan and shall notify the holder of the loan of the determination of such net value.

"(4) A case referred to in paragraphs (5), (6), and (7) of this subsection as being described in this paragraph is a case in which the net value of the property securing a defaulted loan exceeds the amount of the total indebtedness under the loan minus the amount guaranteed under this chapter.

"(5) In a case described in paragraph (4) of this subsection, if the holder of the defaulted loan acquires the property securing the loan at a liquidation sale for an amount that does not exceed the lesser of the net value of the property or the total indebtedness under the loan—

"(A) the holder shall have the option to convey the property to the United States in return for payment by the Administrator of an amount equal to the lesser of such net value or total indebtedness; and

"(B) the liability of the United States under the loan guaranty under this chapter shall be limited to the amount of such total indebtedness minus the net value of the property.

"(6) In a case described in paragraph (4) of this subsection, if the holder of the defaulted loan either does not acquire the property securing the loan at the liquidation sale or acquires the property at such sale for an amount that exceeds the lesser of the net value of the property or the total indebtedness under the loan—

"(A) the Administrator may not accept conveyance of the property except as provided in paragraph (7) of this subsection; and

"(B) the liability of the United States under the loan guaranty under this chapter shall be limited to the amount equal to (i) the amount of such total indebtedness, minus (ii) the amount realized by the holder incident to the sale or the net value of the property, whichever is greater.

"(7) In a case described in paragraph (4) of this subsection, if the holder of the defaulted loan acquires the property securing the loan at the liquidation sale for an amount that exceeds the lesser of the total indebtedness under the loan or the net value and that was the minimum amount for which, under applicable State law, the property was permitted to be sold at the liquidation sale—

"(A) the Administrator may accept conveyance of the property to the United States for a price not exceeding the lesser of the amount for which the holder acquired the property or the total indebtedness under the loan; and

"(B) the liability of the United States under the loan guaranty under this chapter is as provided in paragraph (6)(B) of this subsection.

"(8) If the net value of the property securing a defaulted loan is not greater than the amount of the total indebtedness under the loan minus the amount guaranteed under this chapter—

"(A) the Administrator may not accept conveyance of the property from the holder of the loan; and

"(B) the liability of the United States under the loan guaranty shall be limited to the amount of the total indebtedness under the loan minus the amount realized by the holder of the loan incident to the sale at a liquidation sale of the property.

"(9) In no event may the liability of the United States under a guaranteed loan exceed the amount guaranteed with respect to that loan under section 1803(b) of this title. All determinations under this subsection of net value and total indebtedness shall be made by the Administrator.

"(d)(1) Of the number of purchases made during any fiscal year of real property acquired by the Administrator as the result of a default on a loan guaranteed under this chapter for a purpose described in section 1810(a) of this title, not more than 75 percent, nor less than 60 percent, of such purchases may be financed by a loan made by the Administrator. The maximum percentage stated in the preceding sentence may be increased to 80 percent for any fiscal year if the Administrator determines that such an increase is necessary in order to maintain the effective functioning of the loan guaranty program.

"(2) In carrying out paragraph (1) of this subsection, the Administrator, to the maximum extent consistent with that paragraph and with maintaining the effective functioning of the loan guaranty program under this chapter, shall minimize the number of loans made by the Administrator to finance purchases of real property from the Administrator described in that paragraph.

"(3) Notes securing such loans may be sold with recourse only to the extent that the Administrator determines that selling such notes with recourse is necessary in order to maintain the effective functioning of the loan guaranty program under this chapter.".

(b)(1) Subchapter III of chapter 37 of title 38, United States Code, is amended by adding at the end the following new section:

"§1830. Use of attorneys in court

"(a) Within 180 days after the date of the enactment of this section, the Administrator shall take appropriate steps to authorize attorneys employed by the Veterans' Administration to exercise the

right of the United States to bring suit in court to foreclose a loan made or acquired by the Administrator under this chapter and to recover possession of any property acquired by the Administrator under this chapter. With the concurrence of the Attorney General of the United States, the Administrator may acquire the services of attorneys, other than those who are employees of the Veterans' Administration, to exercise that right. The activities of attorneys in bringing suit under this section shall be subject to the direction and supervision of the Attorney General and to such terms and conditions as the Attorney General may prescribe.

"(b) Nothing in this section derogates from the authority of the Attorney General under sections 516 and 519 of title 28 to direct and supervise all litigation to which the United States or an agency or officer of the United States is a party."

(2) The table of sections at the beginning of such chapter is amended by inserting after the item relating to section 1829 the following new item:

"1830. Use of attorneys in court.".

(c)(1) The amendments made by subsection (a) shall take effect on October 1, 1984.

(2) Subsections (c) and (d) of section 1816 of title 38, United States Code (as added by subsection (a) of this section), shall cease to have effect on October 1, 1987.

(3) The amendments made by subsection (b) shall take effect on the date of the enactment of this Act.

(d) Not later than 180 days after the date of the enactment of this Act, the Administrator of Veterans' Affairs and the Attorney General of the United States shall submit to the appropriate committees of the Congress a joint report that—

(1) describes and explains the actions taken by the Administrator and the Attorney General to implement section 1830 of title 38, United States Code, as added by subsection (b); and

(2) sets forth their views with respect to the advisability of actions, pursuant to the second sentence of subsection (a) of such section, to employ private attorneys to bring actions described in that section.

(e)(1) Not later than December 1, 1986, the Administrator of Veterans' Affairs shall submit to the Committees on Veterans' Affairs of the Senate and House of Representatives a report on the administration and functioning of the loan guaranty program conducted by the Veterans' Administration under chapter 37 of title 38, United States Code, and the status of the Veterans' Administration Loan Guaranty Revolving Fund established under section 1824(a) of such title.

(2) The report shall include—

(A) a description of the actions taken by the Administrator during the period beginning on June 1, 1984, and ending on September 30, 1986, and the actions planned as of September 30, 1986 (together with a schedule for completing any actions planned), to maintain the effective functioning of that program and to ensure the solvency of the Fund, including actions with respect to the acquisition of properties following liquidation sales, the making of loans (known as "vendee loans") to finance the sale of properties so acquired, the quality of property ap-

praisals by the Veterans' Administration, and assessments of home-buyer credit worthiness;

(B) the Administrator's evaluation of the effects of the amendments made by subsection (a) (relating to acquisition of properties after liquidation sales and to vendee loans), including the Administrator's evaluation of the effects of subsection (d) of section 1816 of title 38, United States Code (as added by subsection (a)(2)) (relating to vendee loans), on the operation and effective functioning of such program; and

(C) the recommendations of the Administrator regarding any need for administrative or legislative action with respect to such program, including the Administrator's recommendations as to whether or not subsection (c)(2) (providing for the termination of provisions relating to the acquisition of properties and to vendee loans) should be amended.

* * * * * * *

TITLE V—VETERANS' PROGRAMS

PART A—COST SAVINGS UNDER THE VETERANS' ADMINISTRATION PENSION PROGRAM

EFFECTIVE DATE FOR AWARD OF PENSION FOR NON-SERVICE-CONNECTED DISABILITY OR DEATH

House amendment to the Senate amendment

The House amendment would eliminate retroactive awards of non-service-connected disability pension to veterans—currently provided where the application is received within one year from the date on which the veteran became permanently and totally disabled—for the period between the date of disability and the date the veteran filed an application for pension. The House amendment would also shorten the period for retroactive awards of death pension to survivors of war veterans by reducing, from one year to 60 days, the period during which a survivor must file an application for death pension in order to receive a retroactive award for the period between the date of the veteran's death and the date of application. These provisions would take effect with respect to applications received after September 30, 1984.

Senate amendment

No provision.

Conference agreement

The Senate recedes with an amendment reducing the retroactive period for survivors to 45 days and providing an exception to the provision eliminating retroactivity for veterans. The exception would be for a veteran who has a disability that, for a period of at least 30 days beginning on the date of permanent and total disability, prevents him or her from applying for pension. In order to be eligible for this exception, the veteran would be required to include in his or her application a request for a retroactive award.

PART B.—ACTIONS TO INCREASE RECEIPTS AND SAVE COSTS UNDER THE VETERANS' ADMINISTRATION HOME LOAN GUARANTY PROGRAM

INCREASE IN FEE FOR HOME LOANS GUARANTEED BY THE VETERANS' ADMINISTRATION AND EXTENSION OF FEE TO VENDEE LOANS

House amendment to the Senate amendment

The House amendment would, effective with respect to loans closed on or after the date of enactment, provide for receipts from loan orgination fees on home loans guaranteed, made, or insured by the VA to be deposited in the VA Loan Guaranty Revolving Fund. The House amendment also would extend by two years, from September 30, 1985, through September 30, 1987, the period during which such fees are imposed. Effective with respect to loans closed 30 or more days after the date of enactment, the House amendment would increase the fee from one-half of one percent to one percent and impose the fee on loans (known as "vendee loans") made by the VA to finance the purchase from the VA of properties it acquires through the operation of its home loan program.

Senate amendment

No provision. However, S. 2391, passed by the Senate on March 30, 1984, would, effective on the date of enactment, provide for loan origination fee receipts to be deposited in the Loan Guaranty Revolving Fund and, effective with respect to loans closed 14 or more days after enactment, increase the fee to one percent.

Conference agreement

The Senate recedes.

PROPERTY ACQUISITIONS

House amendment to the Senate amendment

The House amendment would, effective October 1, 1984, make certain reforms in the administration of the VA's home loan guaranty program with respect to the acquisition and disposition of properties securing loans which go into default and are liquidated through a foreclosure sale or comparable transaction (hereinafter referred to as a "liquidation sale"). Thus, the House amendment would specify the circumstances under which the VA would be required to acquire or be precluded from acquiring a property after a liquidation sale.

Although current statutory language states that when the Administrator has received notice of a default, the Administrator "shall thereupon pay" to the holder of the loan the amount payable under the guaranty, the VA, pursuant to long-standing practice and regulations, follows an administrative procedure whereby the guaranty generally is not paid until the holder of the loan has liquidated its security interest in the property. Under this procedure, it has been the VA's practice in a very high percentage of cases of liquidation sales (approximately 95 percent) to acquire the property from the lender following the sale. In some cases, however, the VA has acquired properties at prices which, when combined with the costs of owning temporarily and selling the property and any amount remaining payable under the guaranty, have resulted in total VA expenditures in connection with the property exceeding the amount for which the United States was liable under the guaranty. The House amendment was designed to ensure that acquisitions are not made where they would result in net costs to the VA (after re-sale) in excess of what the VA would pay under the guaranty if it did not acquire the property. Thus, the House amendment set forth statutory criteria under which, depending on the estimated net value, the amount of the total indebtedness, and the VA's liability under the guaranty, either the holder of the loan would have the statutory option to see the property to the VA or the VA would not be permitted to acquire it.

The House amendment would also amend the provision in current law (section 1816(a) of title 38, United States Code) requiring the Administrator, upon receiving notice of a default, to pay to the holder of the loan the pro rata portion of the guaranty (which, under section 1803(b) of title 38, decreases or increases in proportion to any decrease or increase in the amount of the unpaid portion of the obligation). That amendment would specify that, subject to the above-noted provisions specifying criteria for liquidation sales, the Administrator would have the authority, but would not be required, to pay the guaranty upon receiving notice of default.

Senate amendment

No provision.

Conference agreement

The Senate recedes with clarifying amendments and amendments adding provisions relating to the use of VA and private attorneys to bring foreclosure and eviction suits in court and requiring a report on the VA's loan guaranty program.

The provisions of the conference agreement regarding property acquisitions are as follows:

Definitions

The term "defaulted loan" would be defined (as in the House bill) so as to limit the scope of the property-acquisition provisions to VA-guaranteed home loans other than those made for manufactured homes and guaranteed under section 1819(a) of title 38.

The term "liquidation sale" would be defined broadly (as in the House bill) to include not only a judicial foreclosure sale but also such other liquidation procedures, for example, a deed in lieu of foreclosure, as may be permitted under the law of the State in which the property is located. Because loan liquidation procedures differ in the various States, and because within any particular State there may be several alternative means of foreclosing on a defaulted loan, the conferees have not attempted to set forth a comprehensive definition of a liquidation sale. It is the conferees' intention that the term would apply to any involuntary or voluntary conveyance, pursuant to applicable State law, of the property securing a defaulted loan for the purpose of liquidating the security interest of the loan holder, with the net proceeds of the conveyance being used to satisfy, at least in part, the indebtedness.

The term "net value" would be defined as fair market value minus the total estimated costs that the VA would incur (other than the purchase price) in connection with acquiring the property after a liquidation sale and thereafter disposing of it. This term is not used in the current VA regulations governing liquidation sales and VA acquisitions following those sales (primarily section 36.4320 of title 38, Code of Federal Regulations). However, the regulations refer to a roughly comparable concept—"the minimum amount which shall be credited to the indebtedness on account of the value of the security to be sold"—and use that concept in a fashion similar to the way "net value" is used in the conference agreement. Thus, the "amount . . . credited . . . on account of the net value of the security" is currently used as an indicator of the price at which the lender may purchase the property at the liquidation sale and re-sell it to the VA, that is, where that amount exceeds the total indebtedness minus the amount payable under the guaranty. In determining net value under the conference agreement, the Administrator would be required to subtract from fair market value all of the estimated costs that the VA would pay in acquiring and disposing of the property.

With respect to the costs of administration—one of the cost categories specified in the conference agreement—the conferees note their intention that this category include in-house costs to the VA that are clearly and directly related to acquiring, holding, and disposing of the property. The VA personnel costs involved would be an example.

In connection with the VA's calculation of the costs of acquiring and disposing of properties, the conferees do not intend to change the VA's current policy of not considering interest costs that the United States would incur if it were necessary for the Government to borrow the funds for a particular acquisition. If the Administrator determines that a change to this policy is warranted, notwithstanding the conferee's position as stated above, the Administrator shall, not later than the February 1 preceding the fiscal year in which a proposed change would take effect, provide the Veterans' Affairs Committees with notice of the change.

The conferees also note their understanding that, in assessing the fair market value of a property, the Administrator obtains appraisals of the property "as is" and of what the property would be worth if certain improvements were made. It is the conferees' intention, in any case in which the costs of improvements are included in the costs being deducted from fair market value to arrive at net value, that the fair market value figure include the estimated addition to the value of the property that would result from those improvements. Of course, where no improvements are planned, an "as is" appraisal would be used and no deduction would be made for estimated costs of any improvements.

The term "total indebtedness" would include (1) the unpaid principal, (2) the interest on the loan as of the liquidation sale, or such earlier date following the expiration of a reasonable period for the sale to occur as the Administrator may specify pursuant to regulations, and (3) other reasonably necessary and proper charges that are specified in the loan instrument and permitted by VA regulations.

The conferees note that, under the last sentence of present section 1816(a) of title 38, United States Code (proposed to be designated as paragraph (3) of section 1816(a) by the conference agreement), the Administrator has the authority to establish a date prior to "the date of judgment and decree of foreclosure or sale, upon which accrual of interest or charges shall cease." It is the conferees' intent that the Administrator, in implementing this authority in conjunction with the above-described definition of "total indebtedness", not impose a cut-off date in a case in which the delay in the liquidation is reasonably attributable to the holder's forbearing with the agreement of the parties to the loan (as provided for in the third sentence of present section 1816(a) (proposed to be included, with the second sentence, in a paragraph (2) of section 1816(a)). However, the conferees do intend that the authority be used when an unreasonable delay in liquidation is the result of other action or inaction on the part of the holder of the loan at the expense of either the United States Government or another party to the loan.

Circumstances for acquisitions

The operative provisions of the conference agreement would cover all cases in which the holder of a defaulted loan undertakes to liquidate the loan by means of a liquidation sale, except where the Administrator, pursuant to the second sentence of present section 1816(a) (proposed to be included with the third sentence in a paragraph (2) of section 1816(a)), elects to pay the holder of the loan the unpaid balance of the loan plus accrued interest and receive an assignment of the loan and security. Before carrying out a liquidation sale, the holder of the loan would be required, in accordance with VA regulations implementing the conference agreement, to notify the Administrator of the proposed sale. After receiving that notice, the Administrator would be required to determine the net value of the property and the total indebtedness and to notify the holder of the loan of the net value determination.

The conference agreement provisions with respect to the circumstances for VA acquisitions—which incorporate the substance of the corresponding House bill provisions with the addition of the provision described at item 1(c), below—are as follows:

1. Where net value exceeds total indebtedness minus the amount guaranteed (which would be the pro rata amount determined under section 1803(b) of title 38, as noted above):

    (a) If the holder acquires the property for an amount not exceeding the lesser of net value or the total indebtedness, the holder would have the option to sell the property to the VA in return for the lesser of net value or total indebtedness and the loan-guaranty liability would be limited to total indebtedness minus net value.

    (b) If the holder either does not acquire the property or acquires it for an amount exceeding the lesser of net value or total indebtedness, the Administrator would not be permitted to accept conveyance of the property, except as noted at item (c), below, and the loan-guaranty liability would be limited to total indebtedness minus the greater of net value or the amount realized by the holder incident to the sale.

    (c) If the holder acquires the property for a liquidation sale price exceeding the lesser of total indebtedness or net value and that price was the minimum price for which, under applicable State law, the property was permitted to be sold at the liquidation sale, the Administrator would have discretionary authority to accept conveyance for a price not exceeding the lesser of the liquidation sale price or the total indebtedness, and the loan-guaranty liability would be limited to total indebtedness minus the greater of net value or the amount realized by the holder incident to the sale.

2. Where net value does not exceed total indebtedness minus the amount guaranteed, the Administrator would not be permitted to accept the conveyance of the property, and the loan-guaranty liability would be limited to the total indebtedness minus the amount realized by the holder incident to the liquidation sale.

The conferees note that it is their intention to make major changes with respect to current VA policies and practices with respect to acquisitions in only the following ways: requiring the VA to take its costs of administration into account in ascertaining the value of a property to the VA (net value) and prohibiting the VA from acquiring the property in certain cases.

These modifications—together with provisions codifying current policies and practices—are designed to maintain the effective functioning of the loan guaranty program and make its operation more economical and, thus, to help ensure that the program will continue to be able to fulfill its basic purpose of assisting eligible veterans to buy homes.

In addition, the conferees note the need for implementing regulations to provide a great deal of detail regarding the transactions involved. For example, the conferees expect that the regulations would specify the terms and conditions for the conveyances of property to the VA permitted in the situtations described at items 1 (a) and (c), above. As another example, the conference agreement provides no specifics regarding the method or deadlines for the provision of any notices. However, it is the conferees' understanding that such notices are provided routinely and effectively at the present time, and the conferees do not intend any undue complication of that process.

Sunset provision

The conference agreement provisions relating to property acquisitions would expire on October 1, 1987.

Use of VA and private attorneys to bring foreclosure actions

The conference agreement would require the Administrator, within 180 days after the date of enactment, to authorize VA attorneys to exercise the right of the United States to bring suit in court to foreclose loans made or acquired by the VA under chapter 37 of title 38, United States Code, relating to home loans made, guaranteed, or insured by the VA, and to recover possession of any property acquired by the Administrator. The Administrator would also be provided with the authority, subject to the concurrence of the Attorney General, to acquire the services of non-VA attorneys to bring such suits. The activities of all attorneys in bringing suit under this provision would be subject to the direction and supervision of the Attorney General and to such terms and conditions as the Attorney General may prescribe. In addition, the conference agreement contains a provision to clarify that this measure would not derogate from the Attorney General's authority to direct and supervise all litigation to which the United States or an agency or officer thereof is a party.

Not later than 180 days after enactment, the Administrator and the Attorney General would be required to submit to the appropriate Congressional committees a joint report describing and explaining the actions they have taken to implement the provision relating to the use of VA and private attorneys, as well as their views on the advisability of the VA's use of private attorneys to bring suits to foreclose on loans and recover possession of property.

The conferees are advised that delays in bringing foreclosure and eviction proceedings are resulting is estimated costs of $2 million annually that could be eliminated through prompt judicial actions.

The conferees expect this provision to be implemented so as to avoid this waste of federal funds.

With respect to the use of private attorneys, the conferees note that, in cases where the property involved is a long distance from the nearest VA-employed attorney's office, it may be in the best interest of the United States to acquire the service of local, private attorneys to bring suit. Thus, the conferees urge that the Administrator and the Attorney General, working together, give every consideration to developing, at a minimum, pilot projects using private attorneys in those circumstances.

Report on administration and functioning of the loan guaranty program

Not later than December 1, 1986, the Administrator would be required to submit to the House and Senate Veterans' Affairs Committees a report on the administration and functioning of the VA's loan guaranty program, and the status of the Loan Guaranty Revolving Fund. The report would be required to include a description of actions taken and planned by the Administrator to maintain the effective functioning of the program and to ensure the solvency of the Fund; the Administrator's evaluation of the effects of the conference agreement provision relating to acquisitions of properties after liquidation sales and to vendee loans; and the Administrator's recommendations regarding any need for administrative or legislative action with respect to the loan guaranty program.

Vendee loans

House bill

The House amendment would, effective on October 1, 1984, require the Administrator to reduce to the maximum extent practicable the number of loans (known as "vendee loans") made by the VA to finance the purchase from it of acquired properties. In addition, the House amendment would prohibit the VA from providing vendee loans for more than 75 percent of such purchases in any fiscal year, except that the Administrator would have the authority to increase that limitation to [illegible] percent in any fiscal year if the Administrator determined that doing so was necessary in order to protect the interests of the United States.

Senate amendment

No provision.

Conference agreement

The Senate recedes with an amendment.

Limitation on making vendee loans

The conference agreement retains the House provision setting a ceiling on the percentage of purchases of property from the VA which may be financed be vendee loans during any fiscal year. The House provision requiring the Administrator to reduce the number of vendee loans is modified in the conference agreement so as to require the VA to minimize the number of vendee loans to the greatest extent consistent with certain specified limitations and with maintaining the effective functioning of the VA loan guaranty program. In addition, the conference agreement would require that not less than 60 percent of the purchases during any fiscal year of property acquired by the VA be financed by vendee loans. Also, the House provision that would authorize the Administrator to increase the maximum to 80 percent for any fiscal year is modified so that, before exercising the authority, the Administrator would be required to determine that the increase was necessary to maintain the effective functioning of the loan guaranty program.

It is the conferees' intention that, in carrying out this provision, the VA will analyze the properties in its inventory and encourage the procurement of private financing by sales agents and prospective purchasers in cases where the properties appear to be marketable with non-VA financing.

Sale of vendee loans with recourse

In addition, the conference agreement contains a provision, also effective October 1, 1984, relating to VA sales of vendee loans to private investors "with recourse"—that is, with the right to sell back to the VA, at no loss to the investor, a loan that is in default for a specified period of time. Under this provision, the VA would not be permitted to sell vendee loans with recourse unless the Administrator determined that doing so was necessary in order to maintain the effective functioning of the loan guaranty program.

Sunset provision

The conference agreement provisions relating to vendee loans would expire on October 1, 1987.

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APPENDIX C

[From the Congressional Record, Vol. 130, No. 40, pp. S3518-S3521--Senate, March 30, 1984]

EMERGENCY INTERIM SOLVENCY FOR THE VETERANS' ADMINISTRATION'S LOAN GUARANTY FUND

Mr. STEVENS. Mr. President, I ask the Chair to lay before the Senate Calendar Order No. 731, S. 2391.

The **PRESIDING OFFICER.** The clerk will report.

The assistant legislative clerk read as follows:

A bill (S. 2391) to amend title 38, United States Code, to revise the authority for the collection of a fee in connection with housing loans guaranteed, made, or insured by the Veterans' Administration.

The **PRESIDING OFFICER.** Is there objection to the present consideration of the bill?

There being no objection, the Senate proceeded to consider the bill.

Mr. SIMPSON. Mr. President, I am very pleased to present to the Senate for its consideration S. 2391, a bill to provide emergency interim solvency for the Veterans' Administration's loan guaranty revolving fund by providing for the deposit of loan fees into the fund and by increasing the fees.

Mr. President, the VA's loan guaranty revolving fund—which encompasses virtually all VA housing loan activity—is facing an immediate and severe deficit problem. Since 1962, appropriations have never been necessary to cover the activities of this revolving fund. But in the absence of prompt remedial action, it has been estimated by the Congressional Budget Office that a continuation of current policy will result in an unfunded deficit of at least $125 million in fiscal year 1984, and additional deficits totaling nearly $1 billion in fiscal years 1985 through 1989.

Since its enactment as a readjustment benefit for returning World War II GI's, the VA's loan guaranty program has provided invaluable assistance to veterans who would otherwise not be able to purchase their own home. Basically, the VA's guaranty—for 60 percent of the mortgage amount, up to a limit of $27,500—takes the place of any need for a downpayment such as is customarily required in the commercial lending market. Given the current downpayment requirements among mortgage lenders, a guaranty of $27,500 might well be sufficient to support a total loan amount of $110,000. Over the history of this program, the VA has guaranteed a total of 11.5 million loans with an aggregate face value of more than $300 billion.

This bill would provide emergency solvency assistance to this important program through the end of fiscal year 1985. It would do this by making two changes in the current provision of law—contained in section 1829 of title 38—requiring the collection of a loan origination fee in connection with VA housing loans. First, it would require that all fees collected be deposited not into the General Treasury, as is the case under current law, but instead into the loan guaranty revolving fund itself. I feel that it is appropriate, now that the fund is in urgent financial trouble, that revenues from the collection of these fees should be used to help offset the substantial costs of the program's operation.

The second change would be to increase the amount of the fee from one-half of 1 percent to 1 percent. This will generate an additional $156 million in revenues to the fund during this fiscal year and the next, and it is not expected to decrease the appeal or the usefulness of this valuable guaranty program. It will not interfere with the availability of the guaranty. The 1-percent figure compares quite favorably with the average figure of 3 to 4 percent for fees charged in connection with conventional mortgages.

I would stress, Mr. President, that this bill retains the current law sunset provision of September 30, 1985, since the Veterans' Affairs Committee has drafted it as an interim measure only, pending the development of more comprehensive, long-term solutions to the fund's deficit problems. I believe that additional legislative improvements in the programs will be necessary, and I intend to pursue consideration of such legislation in the committee as swiftly as is possible. I have noted in the past my feeling that a substantial basis of any such legislative initiative might well be the package of program improvements recommended by the Congressional Budget Office in testimony before the Veterans' Affairs Committee, and in a comprehensive report on the subject which has yet to be released in final form. I would note the possibility that we may find that one significant aspect of such a legislative initiative should be to remove the current sunset date on the loan origination fee provision which is the subject of the present legislation, so as to make the loan origination fee a permanent part of the loan guaranty program. I note that the House Budget Committee has recently marked up a budget resolution containing reconciliation instructions which would assume the permanence of the 1-percent loan origination fee and would, in addition, assume the enactment of CBO's package of program improvements. If, indeed, the Congress were to endorse these reconciliation goals, the substantive legislative assumptions underlying those reconciliation instructions would be assured of my strongest support.

AMENDMENT NO. 2875

(Purpose: To provide that the increase in the Veterans' Administration loan fee shall take effect 14 days after enactment)

Mr. STEVENS. Mr. President, on behalf of Senator SIMPSON and Senator CRANSTON, I send an amendment to the desk and ask for its immediate consideration.

The **PRESIDING OFFICER.** The clerk will report.

The assistant legislative clerk read as follows:

The Senator from Alaska (Mr. STEVENS) on behalf of Mr. SIMPSON and Mr. CRANSTON proposes an amendment numbered 2875.

Mr. STEVENS. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The **PRESIDING OFFICER.** Without objection, it is so ordered.

The amendment is as follows:

On page 3, strike out the period at the end of line 14 and insert in lieu thereof a comma and "except that the amendment made by clause (1) of section 3 shall take effect with respect to loans closed 14 days or more after the date of the enactment of this Act.".

Mr. SIMPSON. Mr. President, this amendment is submitted for myself and my good friend, the ranking minority member of the Committee on Veterans' Affairs (Mr. CRANSTON), regarding the effective date of S. 2391. As reported by the committee, the bill would take effect on April 1. Clearly, enactment by that date—which is 2 days from today—will not be possible. And just as clearly, the portion of this bill which would increase the loan origination fee to 1 percent does not lend itself to retroactive application.

This amendment, therefore, would delay the effective date of the increase in fee until 10 days after the date of enactment. The 10-day period should be sufficient to permit the VA to provide notification of the change to commercial lenders who write and service VA-guaranteed loans. The amendment would leave intact the April 1 effective date for that part of the bill which would transfer fee revenues from the General Treasury to the revolving fund.

Mr. President, this amendment is appropriate to permit this legislation to go forward to the House and to the President for his signature as swiftly as possible, and I would urge that my colleagues join me in supporting it.

The **PRESIDING OFFICER.** The question is on agreeing to the amendment.

The amendment (No. 2875) was agreed to.

Mr. SIMPSON. Mr. President, I would like to take a moment to express my appreciation to my good friend, Senator CRANSTON, for his fine cooperation and assistance in moving this vital legislation so expeditiously to the floor. A pleasure always to work with him. I would also like to commend the excellent work of the committee majority staff—especially our fine and capable new chief counsel and staff director, Tony Principi, general counsel, Scott Wallace, whom I shall greatly miss as he goes on to pursue new professional goals, budget specialist, Brent Goo, a very thorough and sensible budgeteer, and a particular thanks for the fine and cheerful support work of our newest addition, Jody Sanders. My thanks also to our skilled committee minority staff—notably the remarkable and talented Jon Steinberg, Ed Scott, and Babette Polzer.

The Committee on Veterans' Affairs has unanimously concluded that this legislation is urgently needed. I strongly urge my colleagues to join me in supporting it as amended.

(By request of Mr. Byrd, the following statement was ordered to be printed in the Record:)

EMERGENCY PROTECTION OF SOLVENCY OF VA LOAN GUARANTY REVOLVING FUND

● Mr. CRANSTON. Mr. President, as the ranking minority member of the Veterans' Affairs Committee, I rise to speak on behalf of the pending measure, S. 2391, which I joined with our distinguished chairman (Mr. Simpson) in introducing on March 6 and which was reported by the committee on March 22. This bill would redirect the receipts from the Veterans' Administration home-loan guaranty origination fee from the General Treasury into the VA's loan guaranty revolving fund and increase the fee from one-half of 1 percent to 1 percent.

BACKGROUND

Mr. President, I have been very concerned about the solvency and viability of the VA's home-loan guaranty program since early this year when I first wrote the chairman, on January 18, suggesting that oversight hearings be held on the many pressing issues affecting the program. My good friend from Wyoming responded promptly on this issue, and on February 29 an excellent hearing was held that has provided much information and insight as the committee has grappled with the complex issues that are involved.

At the hearing, the most pressing matter that came to our attention was the need for urgent action to shore up the solvency of the guaranty fund. As noted in the committee's report on the pending measure, Senate Report No. 98-366, the Congressional Budget Office estimates that, if nothing is done and current policies vis-a-vis the fund continue, there will be a deficit—that would otherwise have to be dealt with by an appropriation in the VA's loan guaranty revolving fund of at least $125 million in fiscal year 1984, $108 million in fiscal year 1985, $6 million in fiscal year 1986, and additional deficits totaling nearly $870 million in fiscal year 1987 through 1989.

The administration's response to this need for urgent action was to announce, in the President's budget submission for fiscal year 1985, that major policy changes in the operation of the home-loan program would be made, effective March 1, 1984. The most significant change would have terminated the VA's current general practice of acquiring the property involved following a foreclosure and would have required instead that the VA pay off its guaranty in all cases. The administration projected that the effects of the implementation of this change, together with related policy changes, would be to reduce to $113 million the fiscal year 1984 outlays from the loan guaranty revolving fund and to reduce fiscal year 1985 outlays to $29.6 million as well as to obviate the need for any appropriations for the revolving fund in each of those fiscal years.

However, Mr. President, this policy change has now been suspended after serious problems and concerns arose regarding its long-term cost-effectiveness and the adverse impact it could have on veterans attempting to purchase homes. At the committee's February 8, 1984, hearing on the budget for veterans' programs, the Administrator of Veterans' Affairs testified that the VA was participating, together with other Federal agencies involved, in a task force that is attempting to develop a consistent Government-wide policy with respect to foreclosure procedures. He stated that he did not think the status of any new policy would be resolved until "late fall, at the earliest." Subsequently, in a February 23 letter to the chairmen and ranking minority members of both the House and Senate Committees on Veterans' Affairs, the Director of the Office of Management and Budget advised that the implementation date for whatever changes are made in loan guaranty program policies will be October 1, 1984.

I want to emphasize my strong disagreement with this administration's position that the VA's policy in this area should be determined by its consistency with Government-wide policy and my keen disappointment that, as Administrator Walters stated at our committee's February 8 hearing, it was considered necessary in the budget negotiating process with the Office of Management and Budget to agree with this position. I agree that the VA should attempt to coordinate its efforts with other agencies and be fully cognizant of the policies of those other agencies and how they interact with VA programs. However, I believe very strongly that VA policies should be based on making VA programs work effectively for the benefit of the veterans for whom the Congress established them. Thus, I am disappointed that consistency with other agencies—as opposed to insuring the efficient operation of VA programs for the benefit of eligible veterans which, for me, must be the crucial criterion—will apparently be the touchstone with respect to future VA policies in this area.

S. 2391 AS REPORTED

Thus, at this point, Mr. President, the committee and the Congress are faced with the need for urgent action to insure the solvency of the loan guaranty revolving fund. I believe that the approach in the pending bill will go a long way toward resolving that issue, at least temporarily.

The results of redirecting into the revolving fund fees that are collected on loans closed after March 31, 1984, and increasing the fee—effective, as proposed in the floor amendment that I will discuss shortly, for loans closed 14 or more days after enactment—would be the infusion, based on the CBO estimate, of approximately $92 million into the fund in fiscal year 1984 and $222 million in fiscal year 1985, a 2-year total of approximately $314 million. That amount is greater than the expected fiscal year 1984 and 1985 deficits combined—$233 million—as estimated by CBO.

Mr. President, with respect to the provision for the fees to be deposited into the loan guaranty revolving fund, rather than into the Treasury as miscellaneous receipts, as under current law, I want to note my strong support for the committee's position as stated on page 6 of its report that:

> It is appropriate that fees generated by this vital program should, now that the program is experiencing compelling funding difficulties, be . . . made available to the program for the purpose of meeting the considerable costs of its operation.

Indeed, this was the committee's strong preference when, as part of the 1983 reconciliation process, it recommended the establishment of the fee originally. We were unable to achieve that result at that time because of certain congressional budget scorekeeping difficulties.

With respect to the fee itself, I stress that the increase of one-half of 1 percent in the amount of the fee would not in any way alter the current-law exemptions for veterans with service-connected disabilities and for surviving spouses of veterans who died from such disabilities. Also, the bill would retain the current sunset provision for the fee so that there would be no provision in law for fees to be collected for loans closed after the end of fiscal year 1985. It is also important to note that the fee—which at 1 percent of the loan amount would mean an average fee of $600 for individuals purchasing homes—may either be paid in cash at the time of settlement or financed as part of the initial principal amount of the loan. Permitting financing of the fee as part of the loan amount assures that the burden of the fee on the veteran will continue to be minimized.

Mr. President, I want to stress, as the committee has stated in its report, that this legislation is designed as an interim measure. I will continue to monitor very carefully the very complicated issues involved in this area and will be following VA home-loan program developments very closely as program policy changes are considered. After taking into account the task force's recommendations and proposed policy changes, if any, I stand ready to take such action as may be necessary and appropriate to insure that the fund remains solvent and that the program continues to be operated in an effective and efficient manner and, most importantly, in the best interest of the veterans it is designed to serve.

SIMPSON-CRANSTON EFFECTIVE DATE AMENDMENT

I also want to make special mention of the amendment that has been adopted to the pending measure on behalf of the chairman and myself. The effective date of the measure as reported was April 1, 1984. The committee wanted to make the proposed changes effective as soon as possible so as to insure maximum relief to the fund's solvency. However, in recognition of the fact that the increase in the fee cannot be made retroactive nor be implemented nationwide on a few days' notice, we are proposing that the one-half-percent increase in the fee become effective with respect to loans closed 14 days or more after enactment. After discussions with officials in the VA's Loan Guaranty Service, it appears that this amount of leadtime will be sufficient to get the word out to lenders, veteran-purchasers, and others who need to know about the change, and I have been assured by the VA's Loan Guaranty Service that, if the House were to find this legislation acceptable and pass the measure, a preenactment notice alerting recipients to the possibility of an increase in the fee would be transmitted to all VA regional offices immediately after House passage of the bill.

Regarding the 14-day leadtime that would be provided between the date of enactment and the effective date of the fee increase, I would point out that the provision of law establishing the fee, section 406 of Public Law 97-253, which was signed into law on September 8, 1982, took effect 23 days after that date, on October 1, 1982. It is my understanding that the VA's experience in implementing the new fee in that timeframe was a complete success in that there were no situations, as far as the VA's Loan Guaranty Service is aware, in which a VA-guaranteed loan was closed after September 30, 1982, without the parties having been aware of the fee and, thus, in which the veteran-purchaser subsequently had to be required to come up with cash to pay the fee rather than having it financed as part of the loan.

Based on that experience with the establishment of the original fee requirement, it seems reasonable to expect that, with the preenactment notice mentioned above, the VA should be able, with a 14-day leadtime, to achieve the same successful implementation in the case of increasing a fee which is already a part of the current process.

CONCLUSION

Mr. President, it is my understanding that there is a favorable disposition in the House Committee on Veterans' Affairs toward the two changes that would be made by this bill. I hope that the bill will be held at the desk when it arrives in the House. I would urge that my good friends on the House Committee give this measure their prompt attention and consideration for favorable action at their earliest opportunity.

Before closing, Mr. President, I want to take this opportunity to express my personal thanks to Scott Wallace, the committee's capable and conscientious General Counsel, for his excellent work on this legislation and his many fine contributions over the past 3 years to a variety of important measures and many other activities of the committee. Scott will be leaving the committee staff next month, and I want to let him know that I and the other minority members and the minority staff have greatly appreciated his efforts and the excellent cooperation and many courtesies he has extended to us. Although we on the Veterans' Affairs Committee will miss Scott, I am delighted that he is not leaving the Senate, but will be joining the staff of the Judiciary Committee's Subcommittee on Juvenile Justice, chaired by my good friend from Pennsylvania (Mr. SPECTER), a highly valued member of our Veterans' Affairs Committee also. On behalf of the minority members and staff of the Veterans' Affairs Committee, I want to wish Scott the best of luck in his future work.

Finally, Mr. President, I want to congratulate my good friend from Wyoming, the committee chairman, for his fine work on this measure and to thank him once again, as well as Majority Chief Counsel Tony Principi, for the fine cooperation which are consistently extended to me and other members of the committee's minority. My thanks also to Bobette Polser and Ed Scott at the minority staff for their fine work on this legislation.

Mr. President, I believe that this measure is clearly in the best interests of our Nation's veterans and the maintenance of the VA's home loan guaranty program, and I urge my colleagues to give it their unanimous support.●

The **PRESIDING OFFICER**. If there be no further amendment to be proposed, the question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed for a third reading, read the third time, and passed, as follows:

S. 2301

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1824(c) of title 38, United States Code, is amended—

(1) by inserting "(2) fees collected under section 1829 of this title," after "requirements of the Fund,"; and

(2) by redesignating clause (2) as clause (3).

Sec. 2. Section 1829 of title 38, United States Code is amended—

(1) in subsection (a), by striking out "one-half of"; and

(2) in subsection (c), by striking out "Treasury of the United States as miscellaneous receipts" and inserting in lieu thereof "Veterans' Administration Loan Guaranty Revolving Fund".

Sec. 3. The amendments made by this Act shall take effect with respect to loans closed after March 31, 1984, except that the amendment made by clause (1) of section 2 shall take effect with respect to loans closed fourteen days or more after the date of the enactment of this Act.

The title was amended so as to read: "A bill to amend title 38, United States Code, to provide emergency interim solvency for the Veterans' Administration's Loan Guaranty Fund by providing for the deposit of loan fees in the Fund and by increasing the fees."

Mr. **STEVENS**. Mr. President, I move to reconsider the vote by which the bill was passed.

Mr. **BYRD**. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

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DEFICIT REDUCTION ACT OF 1984: VETERANS' PROGRAMS

Mr. CRANSTON. Mr. President, as the ranking minority member of the Veterans' Affairs Committee, and as a member of the conference committee for purposes of the consideration of the provisions of title V of division B of the conference report, relating to veterans' programs, I rise in support of those provisions. Title V comprises two parts—part A, which would make cost savings under Veterans' Administration non-service-connected disability and death pension programs by limiting retroactive awards of pension, and part B, which would help ensure that continued effective operation of the VA's home-loan guaranty program, primarily by increasing VA loan-origination-fee receipts and providing for those receipts to be deposited in the VA's Loan Guaranty Revolving Fund and by reducing costs under that program. I believe that the provisions in both areas are fundamentally sound and fair and are in the best interests of the Nation and its veterans.

Mr. President, I would note that, although the Senate amendment contained no provisions relating to veterans' programs, certain of the provisions originally passed by the House on April 26, 1984, in H.R. 5394 and incorporated in title V of the House amendment to the Senate amendment, as noted below, have had a counterpart in Senate legislation or represent concepts that have been under active consideration in the Senate Committee on Veterans' Affairs. In this regard, I want to note that, as is their custom in the development of the final version of any legislation relating to veterans' benefits and services, the distinguished chairman (Mr. MONTGOMERY) and ranking minority member (Mr. HAMMERSCHMIDT) of the House Committee on Veterans' Affairs, as well as the able chairman (Mr. SHELBY) of the Subcommittee on Housing and Memorial Affairs, and the chairman (Mr. APPLEGATE) of the Subcommittee on Compensation, Pension, and Insurance, and the other House conferees were most cooperative with us in fashioning the veterans' provisions in this conference agreement.

PENSION COST SAVINGS

The conference agreement provision, section 2501, making cost savings in the VA pension program by limiting retroactive awards of pension—that is awards of pension for any period prior to the date of application—had its origin in a recommendation made by the General Accounting Office in a February 27, 1984, letter report addressed to the chairmen of the Veterans' Affairs Committees. In that report, the GAO pointed out that in the cases of three other major Federal need-based benefits, the Congress has eliminated any provision for retroactive payments. The GAO also indicated that substantial savings could be achieved by generally eliminating retroactive awards of VA pension.

As a result, in light of the great need to restrain Federal spending and reduce the deficit, our committee, in its March 16, 1984, report of budget views and estimates for veterans' programs in fiscal year 1985—Senate Print No. 98-165, page 13—made a commitment to seeking to achieve approximately $21 million in savings in fiscal year 1985 through legislation limiting these retroactive awards. At the time, we noted that our committee's proposal would include an exception, which I had proposed, to allow retroactive payments in a case in which the veteran was prevented by a disability from filing an application in a timely manner.

Under current law, retroactive awards of pension are made for a period of up to 1 year prior to the date of application. Thus, in the case of a non-service-connected disability pension for needy wartime veterans, if the application is filed within 1 year after the date on which the veteran became permanently and totally disabled, the effective date of the award is that date; otherwise, the effective date is the date of application. In the case of death pension for the needy survivors of wartime veterans who died from non-service-connected causes, if the application is filed within 1 year after the date of the veterans' death, the effective date of the award is that date; otherwise, the effective date is the date of application.

Thus, I am very pleased and grateful to my colleagues in the othe body for agreeing to amend the provision in order to make such an exception for a veteran who is prevented by a disability from filing his or her pension application for a period of up to 1 year after the date on which he or she became permanently and totally disabled.

Mr. President, I also wish to note that our committee agreed to pursue those savings as part of a larger package of savings together with proposed add-ons to the administration's fiscal year 1985 budget request for the VA's medical care account. My good friend, the chairman of the Senate Committee on Veterans' Affairs (Mr. SIMPSON) and I strongly advocated this overall approach in our May 7, 1984, letter to the distinguished chairman [Mr. GARN] and ranking minority member [Mr. HUDDLESTON] of the Appropriations Subcommittee on HUD-Independent Agencies. I inserted that letter in the RECORD for June 21 at S7686, during Senate consideration of the fiscal year 1985 HUD-Independent Agencies appropriations bill, H.R. 5713—at which time I expressed my gratitude to Senators GARN and HUDDLESTON and other members of the Appropriations Committee for proposing VA medical care account appropriations close to what we had recommended.

I am, therefore, extremely pleased to note that the conference agreement on the HUD-Independent Agencies Appropriations Act, fiscal year 1985, contains VA medical care account funding—adding 830 FTEE—within $10.2 million of the total that our committee had recommended and that the add-on is generally for the purposes that our committee had originally proposed. Again, I wish to express my gratitude to Senators GARN and HUDDLESTON for their cooperation and their excellent work on this aspect of the appropriations bill.

VA HOME-LOAN GUARANTY PROGRAM PROVISIONS

Mr. President, with respect to the provisions of the pending measure that relate to the VA's home-loan guaranty program, I want to discuss briefly the background of the concerns that are addressed in this legislation.

Early this year, the report of the President's Private Sector Survey on Cost Control—known as the Grace Commission—recommended that savings in the VA home-loan program be achieved through modification of VA policies with respect to the circumstances under which the VA requires properties in the cases of foreclosures of VA-guaranteed mortgage loans. Later, in the President's fiscal year 1985 budget, the administration announced that the VA would adopt a policy of never acquiring property in the case of foreclosures but instead would, in each case, merely pay the guaranty.

Concerns were immediately raised as to whether this was a cost-effective, practical approach to whatever problem existed and as to whether the approach protected both the interests of the Federal Government and the individual veteran-homeowner. I believe that anyone taking time to review the record of the committee's February 29 hearing will quickly agree with me that the proposal was not an appropriate approach. Indeed, Mr. President, even the administration soon saw the impracticality of the proposal and retracted it scarcely 3 weeks after the budget was submitted. Instead, the VA was appointed to membership on an interagency task force assigned responsibility for developing a Governmentwide policy with respect to defaulted loans under Federal home-loan guaranty and insurance programs.

At the same time as this was occurring, we also became aware that, in order to sustain the solvency of the Loan Guaranty Revolving Fund [LGRF] substantial fiscal year 1984 and fiscal year 1985 appropriations to the fund would be needed.

It was at that point that our committee first took legislative action to help ensure the solvency of the LGRF. On March 6, Senator SIMPSON and I introduced S. 2301, a bill to provide for depositing receipts from the collection of the VA home-loan origination fee in the LGRF—rather than in the Treasury, as under current law—and to increase that fee from one-half percent to 1 percent of the loan amount. That measure was reported by the committee on March 22 and subsequently passed by the Senate on March 30.

In our committee's report on S. 2301—S. Rept. No. 98-366, pages 3 through 7—we described the causes of the then-emerging crisis relating to the LGRF and announced our intention to take further action to ensure the solvency of the LGRF. Thus, the Veterans' Affairs Committee was quickly on record with respect to our commitment to ensuring the continued solvency of the fund. The legislation before us tonight has afforded us the opportunity, on behalf of our committee, to pursue such legislation to enactment.

Mr. President, the House provisions, and section 3811 of the conference agreement provisions, regarding the loan origination fee incorporate the substance of S. 2391 with two substantive changes: First, the fee would be extended to cover loans—so-called "vendee loans"—made by the VA to finance purchases from the VA of property it acquires under the home-loan guaranty program, and, second, the expiration date of the fee would be extended by 2 years, from September 30, 1985, to September 30, 1987.

The principal provision of the conference agreement to reduce the costs of the home-loan guaranty program, section 3812, relates to the circumstances under which the VA acquires properties securing VA-guaranteed loans after foreclosure. It has been the VA's practice in approximately 95 percent of the cases to acquire the property from the lender after the liquidation sale. Such acquisitions typically occur as follows: The VA, before the liquidation sale, advises the holder of the loan of the maximum sale price at which it will acquire the property after the sale. If the holder of the loan is the successful bidder at a price no higher than the price specified by the VA, the VA acquires the property from the holder at the sale price. In general, the VA-specified price is calculated at an amount that enables the VA to reduce its liability under the guaranty. The VA-specified price also can have the effect of reducing the veteran's liability under the loan because the liquidation sale price is subtracted from the amount for which the veteran is liable under the loan.

In some cases, however, the VA has acquired properties at prices which, when combined with the costs of owning temporarily and selling the property and any amount remaining payable under the guaranty, have resulted in total VA expenditures in connection with the property exceeding the amount for which the United States was liable under the guaranty.

As is fully explained in the joint explanatory statement accompanying the conference report of this title, the conference agreement is designed to ensure that an acquisition is not made where it would be expected to result in a net cost to the VA—after it resells the property—in excess of what the VA would pay under the guaranty if it did not acquire the property. I would also note that, by giving the holder of the loan a statutory option to sell the property to the VA in those cases in which VA acquisition of the property would appear to be advantageous to the Government, the conference agreement would insulate the VA from any directives, such as the one issued earlier this year, precluding the VA from acquiring properties in such circumstances.

Thus, these provisions of the conference agreement are, I believe, well-designed to maintain the effective functioning of the VA's loan guaranty program and make its operations more cost-effective and, thus, to help ensure that it will continue to be able to fulfill its basic purpose of assisting eligible veterans to obtain financing to purchase homes or to make home improvements.

Mr. President, I would like to note that, in receding to the House with respect to this provision relating to the acquisition of properties, the Senate proposed and the House accepted both clarifying and two major substantive amendments to the House provisions. The first major Senate amendment relates to the use of VA and private attorneys to bring suits in court to foreclose loans made or acquired by the VA pursuant to the question of its loan and loan-guaranty programs under chapter 37 of title 38, United States Code, and to recover possession of properties that have been acquired by the VA. The second would require a report to the Congress by December 1, 1986, on the administration and functioning of the loan guaranty program.

With respect to the former provision, I note that it is patterned after present section 3116 of title 38, which was added by the enactment of section 605(a)(1) of Public Law 96-466. Section 3116 required the Administrator of Veterans' Affairs, within 180 days after the date of its enactment, to take steps to authorize VA attorneys to bring suits in court to recover certain delinquent debts. At the time Public Law 96-466 was enacted, the VA and the Department of Justice had been engaged for an unduly protracted period in negotiations over the circumstances, terms, and conditions under which VA attorneys would be authorized to bring collection actions. Public Law 96-466 succeeded in bringing those negotiations to a swift and successful conclusion.

At the present time, it is my understanding that there is a sizeable backlog of cases for the foreclosure of home loans made or acquired by the VA under chapter 37. According to the Congressional Budget Office, the use of VA attorneys to reduce that backlog could produce net outlay savings of $1.1 million in fiscal year 1985 and a total of $39 million in net outlay savings over the 5-year period fiscal year 1985 through 1989. Based on the experience under section 3116 of title 38, I expect and urge swift action by the Administrator and the Attorney General to implement this provision.

The conference agreement also authorizes the Administrator, with the concurrence of the Attorney General, to use private attorneys, under a fee or other contractual arrangement, to bring such suits. As noted in the joint explanatory statement, there appear to be circumstances, particularly in cases where the property is a long distance from the nearest VA attorneys' office, in which it would be more cost-effective for local private attorneys to bring these suits. I would like to highlight the fact that, in the explanatory statement, the conferees have urged the Administrator and Attorney General, working together, to give every consideration to developing, at a minimum, pilot projects implementing this authority. Whatever reservations there may be in the Department of Justice regarding the use of this authority, it would appear that an excellent, perhaps the best, way to evaluate them fully would be through actual experiences with the use of private attorneys.

I stress, however, that, as with the use of VA attorneys for this purpose, the use of fee attorneys would be subject to the general responsibility and authority of the Attorney General to supervise and direct litigation to which the United States is a party.

The conference agreement also contains provisions, described in the explanatory statement, relating to the loans—so-called vendee loans—that the VA makes to finance the purchase from the VA of properties it has acquired. Again, the Senate proposed and the House accepted a number of substantive amendments. These included an amendment modifying the House provision setting a ceiling—generally not more than 75 percent—on the percentage of purchases of property from the VA which may be financed by vendee loans during any fiscal year so as also to require that not less than 60 percent of such purchases be financed by vendee loans.

The Senate amendments also included the addition of a provision relating to VA sales of vendee loans "with recourse"—that is, with the right to sell back to the VA a loan that is in default for a specified period. Under this provision, the VA would be permitted to sell vendee loans with recourse only to the extent that the Administrator determined that doing so is necessary in order to maintain the effective functioning of the VA loan guaranty program.

Mr. President, although this array of provisions to bolster and maintain the VA home-loan guaranty program is deserving of favorable Senate action, I want to emphasize that, in no way does my commitment to action to preserve this program end at this time. The need for an appropriation is, unfortunately, still with us, and it is my understanding that a supplemental appropriation request is presently pending with the Office of Management and Budget and should be submitted to the Congress shortly. The VA's request has been pending at OMB for months. It is absolutely disgraceful that OMB has dragged its feet on this matter for so long. The situation now is that the LGRF may very well run out of money next month.

Why OMB would want to place this very important program in such jeopardy is a mystery to me and to veterans across this country.

I will be continuing to monitor very closely the operation of the VA home-loan guaranty program. It is one of the most valuable benefits made available to veterans, and it is essential that its financial stability be secured and that its management and operation continue to meet the needs of veterans and the Nation.

Thus, I will be following the VA's requests for appropriations for the fund, the potential need for additional personnel to administer the program in fiscal year 1985, and the implementation of the provisions contained in the pending measure. In this connection, I want to note that as a result of the efforts of the distinguished Senator from Arizona [Mr. DeConcini], who serves with me on the Veterans' Affairs Committee and who also serves on the Appropriations Committee, the committee report on H.R. 5713, the HUD-Independent Agencies Appropriations Act for fiscal year 1985, directs the VA to report to the Congress on the need for and amount of fiscal year 1984 and fiscal year 1985 appropriations for the fund and also to report on the staffing situation vis-a-vis the loan guaranty program. Those reports are due July 20 and September 1, respectively. I will be awaiting those reports and plan to scrutinize and consider them carefully.

CONCLUSION

Before closing, Mr. President, I want again to express my appreciation to the very able chairman (Mr. Montgomery) and ranking minority member (Mr. Hammerschmidt) of the House Veterans' Affairs Committee and the other House conferees, along with the distinguished Senate committee chairman (Mr. Simpson), both for the outstanding leadership they have shown in the areas dealt with in the veterans provisions of the pending measure and for the cooperative attitude with which they approached this conference. I also want to express my gratitude to the House committee staff members who did such excellent work on this measure—Mack Fleming, Pat Ryan, Arnold Moon, Charles Peckarsky, and Gloria Royce—and to the Senate committee majority staff members—Tony Principi, Julie Susman, and Brent Goo—and minority staff members—Ed Scott, Babette Polzer, and Jon Steinberg—whose fine efforts contributed very substantially to the final product.

For the reasons I have stated, Mr. President, I urge my colleagues to support the veterans programs provisions of this measure.

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